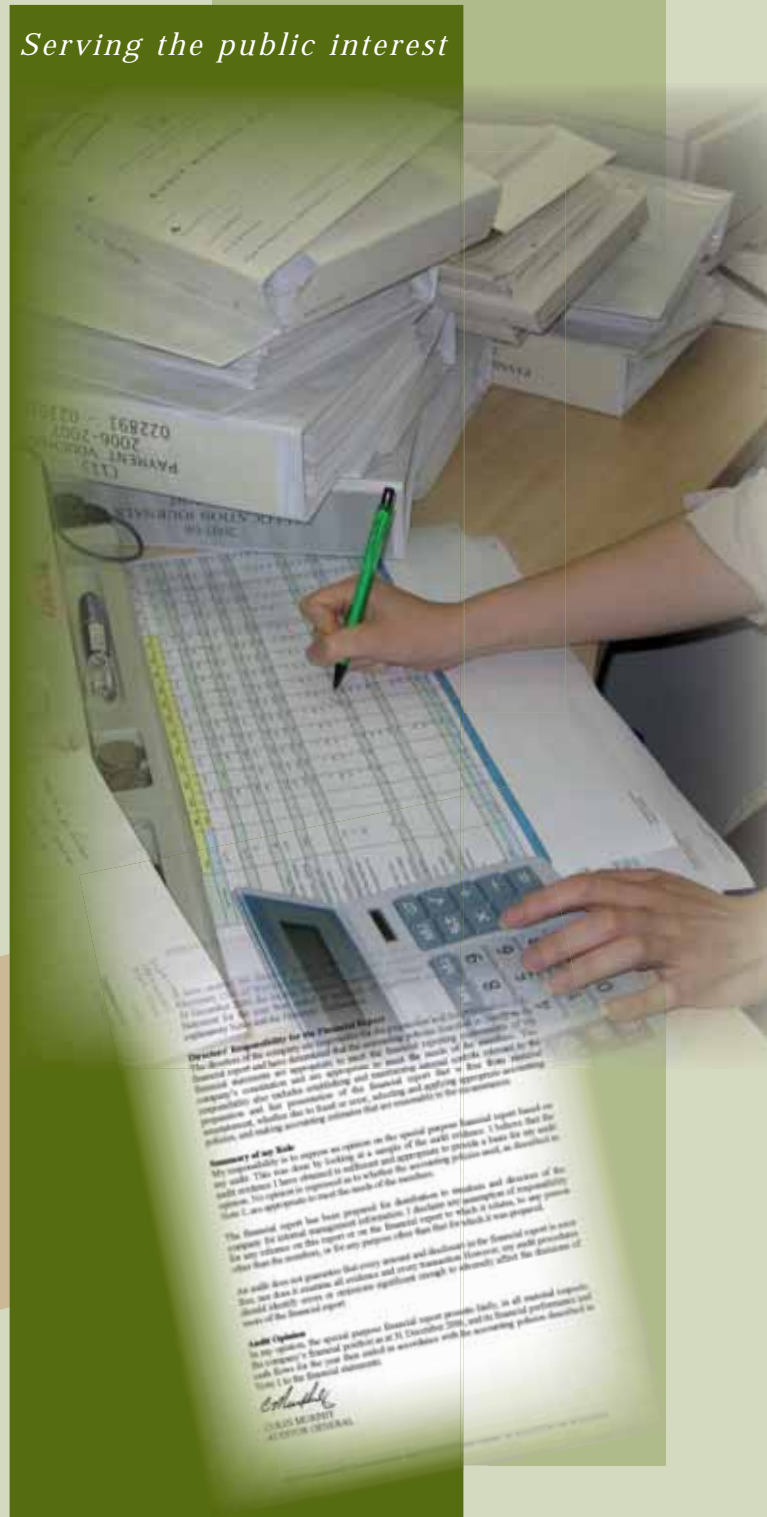


Office of the
AUDITOR GENERAL
Western Australia

Serving the public interest

Annual Report

2006-2007



Transmittal Letter and Statement of Compliance

THE PRESIDENT
LEGISLATIVE COUNCIL



THE SPEAKER
LEGISLATIVE ASSEMBLY

ANNUAL REPORT OF THE OFFICE OF THE AUDITOR GENERAL FOR THE YEAR ENDED 30 JUNE 2007

In accordance with section 61, 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 2007.

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

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

COLIN MURPHY
AUDITOR GENERAL
30 August 2007

OUR PURPOSE

Serving the Public Interest

OUR MISSION

To enable the Auditor General to meet Parliament's need for independent and impartial information regarding public sector accountability and performance

OUR ETHOS

Our ethos is that we seek to be recognised as:

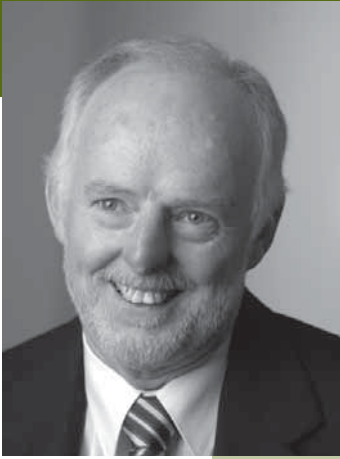
- Independent
- Credible
- Innovative

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Abbreviations

ACAG	Australasian Council of Auditors General	PAC	Public Accounts Committee
AG	Auditor General	PIDs	Public Interest Disclosures
AG Act	Auditor General Act 2006	PRD	Performance Review Division
ASD	Assurance Services Division	PSMA	Public Sector Performance Act 1994
CISD	Compliance and Information System Division	SQD	Standards and Quality Division
FM Act	Financial Management Act 2006	SPI	Strategy, Policy and Innovation Division
KPI	Key Performance Indicator		
OAG	Office of the Auditor General		



Auditor General's Overview

Statement of Accountable Authority

I take pleasure in presenting my first annual report to Parliament for the Office of the Auditor General.

This past financial year has been one of remarkable change for the Office. September 2006 saw the departure of my highly respected predecessor, Des Pearson, after 15 years of outstanding service to the Parliament and people of Western Australia.

The introduction of the *Auditor General Act 2006* (AG Act) and *Financial Management Act 2006* (FM Act) in February 2007 represented the first major overhaul of the State's financial accountability legislation in 22 years. These laws have updated the State's legislative framework to reflect contemporary financial management and audit practice and expectations.

My formal appointment as the new Auditor General for Western Australia in June ensured that 2006-07 ended on a personal high. I am honoured to take on this role, and am keenly aware of the importance of an effective and independent audit function. I am committed to continuing the impressive tradition of my predecessor by serving Parliament in a forthright, credible and relevant manner.

This I believe will inevitably involve re-visiting our medium and longer term priorities. I also see a need for me to focus initially on strategic planning and resourcing to ensure that the Office is equipped to meet current and future challenges. This will need a proactive but responsible approach to help us maintain and build Parliament and the community's confidence in the public sector.

Our Main Challenges

The introduction of the AG Act strengthened the Office's powers and status in several ways, notably:

- enhanced independence through separation of audit and financial management legislation and explicit provisions for independence of the Auditor General
- a strengthened relationship with Parliament, including greater scope for audit requests, a requirement for the Auditor General to consider the audit priorities of Parliament and a stronger role for parliamentary committees
- widened audit powers – the Office is now able to 'follow the public dollar' where private sector entities perform functions on behalf of public sector agencies.

Along with these enhanced powers and status comes greater accountability for both the Office and the Auditor General. The Office is now subject to five-yearly performance reviews, and Auditor General appointments are strictly limited to ten years. There are also stronger natural justice processes for performance examinations that require us to include agencies' responses in our reports to Parliament.

2006-07 was also the first year in which all of our attest audit work was conducted under tighter legislative reporting deadlines for agencies.

Our Performance Highlights

Despite these challenges the performance of the Office was outstanding. The highlights were:

- 16 performance examinations and audit report items tabled in Parliament. These identified 108 Matters of Significance, a result well above the Office's target of 100
- 99 per cent of opinions were issued in time to allow for tabling of annual reports within 90 days
- Parliament's continuing high levels of satisfaction with all our work, as evidenced by the positive response to our annual survey
- an attrition rate of 20 per cent in a very tight labour market. This compares with the all-time high rate of 27 per cent in 2005-06 in a similar labour market.

Acknowledgements

I would like to acknowledge the wonderful and talented team that worked with both Des Pearson and myself during the past year. The cooperation, dedication and commitment of each staff member during this watershed period in the Office's history was greatly appreciated.

I would also like to thank the Parliament of Western Australia for its continued support and cooperation, in particular the Assembly's Public Accounts Committee and the Council's Estimates and Financial Operations Committee. I have found their input invaluable as together we have explored the new responsibilities and possibilities created by the AG Act.

Finally, I wish to again acknowledge the debt owed to Des Pearson. During his period as Auditor General, Des successfully implemented a range of strategies and initiatives that had a profound effect on this Office. The main strategy was to turn us into a leader in performance auditing. He engineered:

- the development of the public sector's first performance indicators framework which enabled the Office to audit the relevance and accuracy of agency performance indicators
- innovative e-auditing techniques and specialist information systems audit capability
- effective relationships with Parliament and its various committees.

Under Des Pearson's leadership the Office evolved into a dynamic and innovative audit office with an international reputation in performance auditing. I am committed to building on this foundation.



COLIN MURPHY
AUDITOR GENERAL
30 August 2007

Auditor General's Overview ... continued

Operational Structure

ENABLING LEGISLATION

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

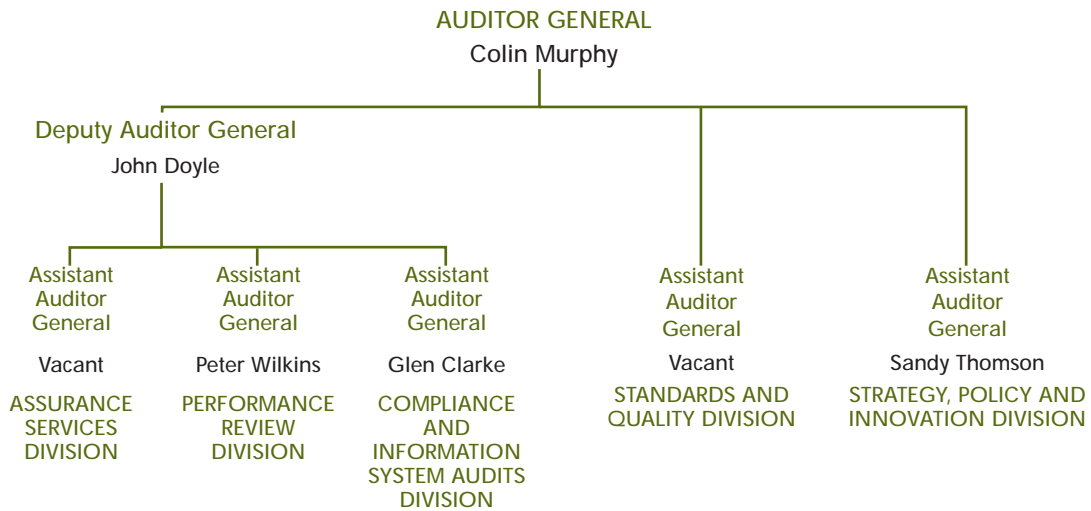
INDEPENDENT OFFICER

Under the *Auditor General's Act 2006* (AG Act) the Auditor General is an independent officer of Parliament authorised and required to act independently in relation to the performance of his or her functions. The Office does not have a responsible Minister. Subject to the AG Act, and other written laws, the Auditor General has complete discretion in the performance of those functions.

ORGANISATION CHART (at 30 August 2007)

The Office is an audit office of around 110 staff responsible to the Auditor General for auditing the Western Australian public sector. The sector comprises some 206 government departments and other agencies. Together they employ about 128 000 people and generate a combined revenue and expenditure of \$34 billion annually to provide a range of services to the citizens of Western Australia.

The Office has five divisions, three providing audit services and two providing support.



Senior Officers

Colin Murphy, B Comm, CPA – A long-standing public servant with senior level experience in both State and Federal agencies.

John Doyle, MBA, MAcc, CA, FCPA, FCCA, FIIA, CIA – Extensive experience as an academic, chief financial officer and in corporate governance.

Peter Wilkins, PhD, MIPAA – Diverse experience in Australia and overseas including roles as an engineer, university lecturer, research consultant and over 20 years as a public sector manager.

Glen Clarke, B Bus, CPA – Extensive audit and corporate management experience in the public and not-for-profit sectors.

Sandy Thomson, FAAQHC, AFCHSE, MHSM – Diverse and extensive experience in corporate management particularly in the public health sector. Accredited Surveyor for the Australian Council of Health Care Standards.

DIVISIONS

Assurance Services Division (ASD)

Provides Parliament with opinions on the integrity of public sector financial statements and performance indicators and agencies' internal controls and environments.

Performance Review Division (PRD)

Provides Parliament with information and analysis of public sector programs and operational performance, recommending opportunities for improvement when appropriate.

Compliance and IS Audits Division (CISD)

Compliance examinations provide Parliament with information about agency compliance with legislation, public sector policies and accepted good practice. Information system audits provide information about the functionality and integrity of computerised information systems.

Standards and Quality Division (SQD)

Provides the Auditor General with confidence that the operational arms of the Office are complying with internal standards. In addition, develops strategies for enhancement of audit methodology.

Strategy, Policy and Innovation Division (SPI)

Provides the Auditor General with the services and strategies necessary to ensure effective communication with Parliament, the community and stakeholders in public sector audit. In addition, ensures the human, financial and other resources of the Office are used efficiently and effectively and that management has the information to effectively run the Office.

KEY LEGISLATION IMPACTING ON THE OFFICE'S ACTIVITIES

The Office does not administer legislation.

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

- *Auditor General Act 2006*
- *Contaminated Sites Act 2003*
- *Corruption and Crime Commission Act 2003*
- *Disability Services Act 1993*
- *Electronic Transactions Act 2003*
- *Electoral Act 1907*
- *Equal Opportunity Act 1984*
- *Financial Management Act 2006* and *Corporations (Western Australia) Act 1990* (Corporations Law)
- *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 also impact on the Office's activities:

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

Auditor General's Overview ... continued

The Office is exempt from the operations of the *Freedom of Information Act 1992*.

In the financial administration of the Office, we have complied with the requirements of the *Financial Management Act 2006* and every other relevant written law, and exercised controls which provide reasonable assurance that the receipt and expenditure of money and the acquisition and disposal of public property and incurring of liabilities have been in accordance with legislative provisions.

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



COLIN MURPHY
AUDITOR GENERAL



SANDY THOMSON
CHIEF FINANCE OFFICER
30 August 2007

Performance Management Framework

OUTCOME BASED MANAGEMENT FRAMEWORK

Government Goal	Desired Outcome	Service
Governance and public sector improvement	An informed Parliament on public sector accountability and performance	Performance Auditing

CHANGES TO OUTCOME BASED MANAGEMENT FRAMEWORK

The Office's Outcome Based Management Framework did not change during 2006-07.

SHARED RESPONSIBILITIES WITH OTHER AGENCIES

The Office did not share any responsibilities with other agencies in 2006-07.



Agency Performance – Report on Operations

Year in Review

Our aim is to meet the community's demand for high quality information and assurance about public sector performance, by providing a range of performance auditing services.

As well as annual audits of agency financial statements, controls and performance indicators (attest audits), we also conduct performance and accountability examinations and provide reports to Parliament on these. Increasingly we are also conducting investigations into matters raised by members of the public.

In common with other public sector agencies we provide our services within certain budgetary and resource limits.

In 2006-07 we conducted attest audits in relation to 206 agencies and completed almost all of them within the much tighter deadline. Previously, these audits were completed within four months of year end, whereas they now need to be completed in less than 90 days. We also audited the first Annual Report on State Finances.

Over the same period we tabled 11 reports in Parliament. These contained a total of 108 Matters of Significance arising from 16 performance and accountability examinations as well as from our attest audit work. This compares with 15 reports tabled in 2005-06 raising 106 Matters of Significance as a result of 18 examinations and our attest audit work.

Under the *Financial Management Act 2006* and its predecessor, the *Financial Administration and Audit Act 1985* we are required to report to Parliament on Matters of Significance. These have been defined as the 'key messages' in our reports, or those issues a general parliamentary reader would take away from the reports after the detail of specific findings and recommendations have receded into the background.

The 2006-07 reports covered a wide range of important topics such as:

- Legal Aid in Western Australia
- Shared Services Reform: A Work in Progress
- A Helping Hand: Home-Based Services in Western Australia
- Management of Major Information and Communications Technology Projects
- Arrangements for Managing the Performance of Chief Executive Officers
- Management of Land Tax and Metropolitan Region Improvement Tax.

Public interest in this work can be gauged from the number of times the reports are accessed on our website. Table 1 shows the 'top 10' downloads for our reports in the 12 months to 30 June 2007.

Agency Performance – Report on Operations ... continued

Top 10 Downloads 2006-07	
Report	Downloads
Life Matters: Management of Deliberate Self-Harm in Young People	5 152
Help Wanted: Public Service Workforce Management	4 835
A Critical Resource: Nursing Shortages and the Use of Agency Nurses	4 829
Balancing Act: The Leasing of Government Assets	3 804
Audit Results Report by Ministerial Portfolios at 16 October 2006	3 527
Second Public Sector Performance Report	3 135
Management of Ramsar Wetlands in Western Australia	2 361
Customer Calling: Call Centres and the Delivery of Customer Benefits	1 781
Room to Move: Improving the Cost Efficiency of Government Office Space	1 656
Contracting Not-for-Profit Organisations for the Delivery of Health Services	1 651

Table 1

Each of our reports includes recommendations to management to address the report's Matters of Significance. Consistent with the democratic principles underlying our Westminster system of government, the Auditor General does not have the power to require agencies to act on these recommendations. The decision whether or not to take action is a management prerogative for which the government of the day is accountable.

In recent years the Legislative Assembly's Public Accounts Committee (PAC) has taken a more proactive role in following-up on our recommendations. Twelve months after each report is tabled, the PAC requests management to provide information on actions taken in response to our recommendations. Where no action is taken agencies are required to provide reasons. We support the PAC's initiative as we see it as significantly enhancing transparency.

Some agencies are also proactive and respond to recommendations before reports are tabled. For example, while an examination of the arrangements for managing Chief Executive Officer performance was in progress the Department of the Premier and Cabinet initiated a review for CEO's covered by the *Public Sector Management Act*. This approach is applauded as it demonstrates that agencies are willing to be proactive in making changes for the betterment of the public service.

Under Des Pearson the Office's parliamentary liaison activities had been boosted significantly, even before the AG Act became law. That practice has continued. In 2006-07 activities included:

- ten meetings with seven Parliamentary Committees involving 37 Members of Parliament (MPs)
- six meetings with Ministers and Shadow Cabinet members on the AG Act and audit activity in their portfolios
- briefings to 14 MPs following the tabling of audit reports
- particular attention was also paid to engaging with Minor Party and Independent MPs who may have, in the past, had less contact with the Auditor General than other MPs.

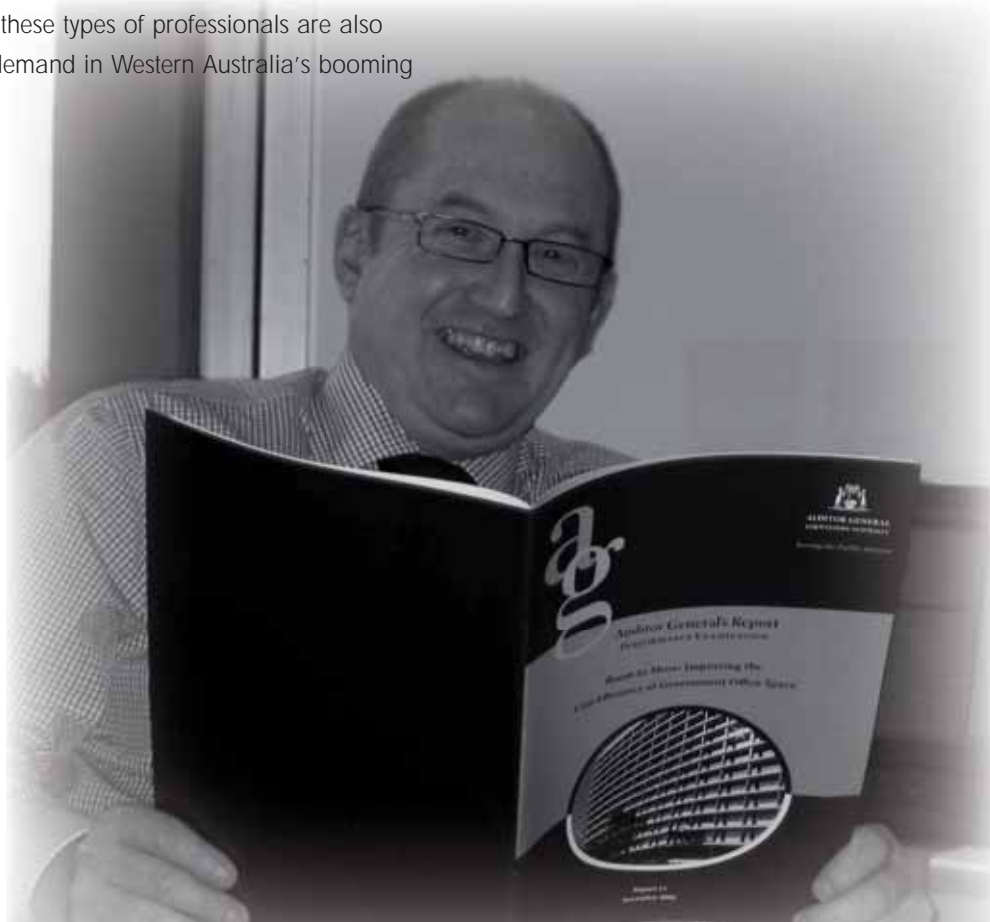
In recent years we have noticed an increase in the numbers of enquiries and complaints received about public sector management. Many of these enquiries and complaints raise personal grievances that do not involve systemic issues that are at the heart of our mandate. However, Table 10 on page 63 also shows that these enquiries and complaints occasionally provide useful business intelligence for our attest audits. Others may justify a special investigation.

We are now tracking special investigations because we foresee this service growing still further as Parliament's, and the public's, interest in holding government accountable continues to grow.

The services we provide require qualified and experienced audit and finance professionals. However, these types of professionals are also much in demand in Western Australia's booming economy.

Attracting and retaining staff has been a continuing challenge for this Office for some years. Our attrition rate of 20 per cent in 2006-07 was seven per cent less than in 2005-06 but this still equates to an annual turnover of one in five staff.

While a key focus and commitment is to continue to build in-house capacity and capability the audit expertise of the private sector is also highly valued. As can be seen on the following pages in the discussion of our performance against our financial targets, there was a small decrease of \$143 000 or 3.5 per cent in this expenditure between 2005-06 and 2006-07. However, measured over the five years to 30 June 2007 it has grown by almost \$1.6 million or more than two-thirds.



*Director, Performance Review Jason Beeley conducts performance examinations for the Office. Jason led the team that produced the report **Room to Move: Improving the Cost Efficiency of Government Office Space**. This report was in our 'top 10' downloads.*

Agency Performance – Report on Operations ... continued

Summary of Financial Performance

The following is a summary of the financial performance of the Office and the trends from 2003 through to the current period ended 30 June 2007. The summary is based on information provided in the Office's audited statements of financial performance.

There are a number of outcomes that should be highlighted:

- The variance increase in FTEs (full time equivalents) was due to the focus of the Office to build capacity to reduce reliance on private sector contractors and associated costs of contracting in audit services.
- An associated expense of building capacity and capability of new and existing staff is the strategic investment in a comprehensive professional development program. This strategy is also designed to improve retention rates.
- The net effect of increased FTE, increased salary costs, increased costs of contracting audits and investment in professional development is demonstrated through an overall increase in total Cost and Net Cost of Services. (Refer Table 2 Notes a and b.)
- There was a net decrease in cash compared to Budget. This was mainly due to the purchase of non-current assets of \$622 000 and a net increase in cash used in operating activities of \$479 000. (Refer Table 2 Note c.)

Table 2 shows the Office's actual financial performance compared to its 2006-07 budget targets.

Service and Appropriation Summary ¹			
	2006-07 Target \$000 ⁽²⁾	2006-07 Actual \$000 ⁽³⁾	Variation ⁽⁴⁾ \$000
Total Cost of Service (Expense Limit)	14 176	15 654	1 478 10% ^a
Net Cost of Services	14 156	15 631	1 475 10% ^a
Total Equity	706	939	233 33% ^b
Net Increase/(Decrease) in cash held	267	(1 101)	(1 368) (512%) ^c
	Number	Number	Number
Approved Full-Time Equivalent (FTE) Staff Level	97	104.50	8 8%

Table 2

(1) 'Service' means Performance Auditing.

(2) As specified in 2006-07 Budget Statements (Budget Paper No 2, Volume 1), p222, 227 and 228.

(3) As specified at pages 20 to 23 of the Financial Statements and Key Performance Indicators.

(4) Further explanations are also contained in Note 36 'Explanatory Statement' at page 46 of the Financial Statements and Key Performance Indicators.

Table 3 shows the Offices' actual financial performance and position over a period of five years including 2006-07.

	2002-03 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Financial Performance					
Total Income ^(a)	11 526	10 587	12 619	14 731	15 509
Total Expenditure	10 809	11 926	12 694	14 249	15 654
Net Cost of Services	7 352	9 770	12 627	14 149	15 631
Change in Net Assets	717	(1 339)	(75)	509	(145)
Financial Position					
Total Assets	3 318	2 498	2 600	3 969	3 176
Total Liabilities	1 523	1 920	2 025	2 885	2 237
Employee Entitlements	1 093	1 468	1 623	1 640	1 628
Analytical Information					
Change in Net Assets to Total Income ^(b)	6.22%	(12.65%)	(0.59%)	3.46%	(0.93%)
Current Ratio ^(c)	2.84	1.49	1.05	1.18	1.14
Debtor Turnover ^(d)	0.13	0.02	0.03	0.03	0.04

Table 3

(a) Total Income refers to Total Operating Revenue and Total Revenues from Government. It reflects the revised arrangements for treatment of audit fee revenue introduced in 2004-05. Under this treatment fees collected for audit services are paid directly in the Consolidated Account as Administered Revenue. The increase in 2007 relates to additional funding approved to assist the Office in delivering services.

(b) The ratio of Change in Net Assets to Total Income.

(c) The ratio of Current Assets to Current Liabilities.

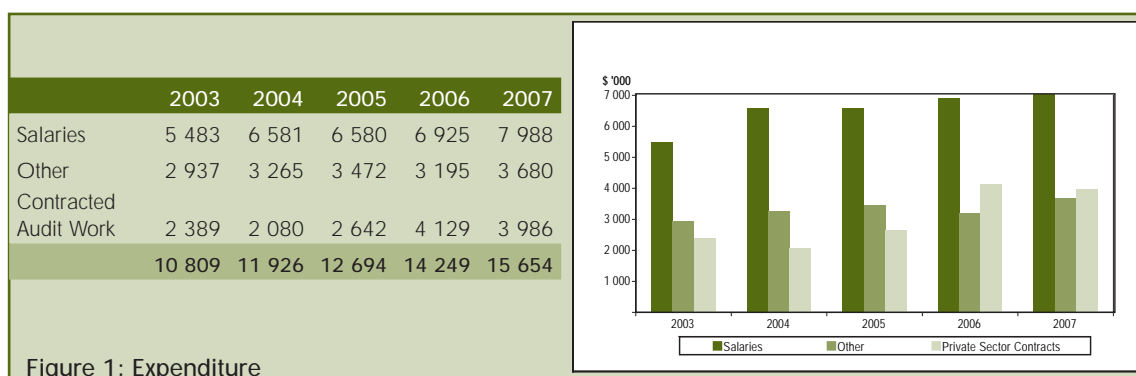
(d) The ratio of Receivables and Work in Progress to Total Income.

Agency Performance – Report on Operations ... continued

TOTAL EXPENDITURE

Figure 1 provides Total Expenditure from 2003 to 2007 broken down into Salaries, traditionally the largest single item in this category, Contracted Audit Work and Other Operating Expenses such as Depreciation and Administration costs.

Salaries was the largest expenditure item for 2006-07 (51 per cent of the 2006-07 total cost of services). Although the costs of contracted work was slightly lower in 2006-07 from 2005-06 the trend from 2004-04 reflects the increased usage of private sector audit resources.



FINANCIAL POSITION – ASSETS AND LIABILITIES

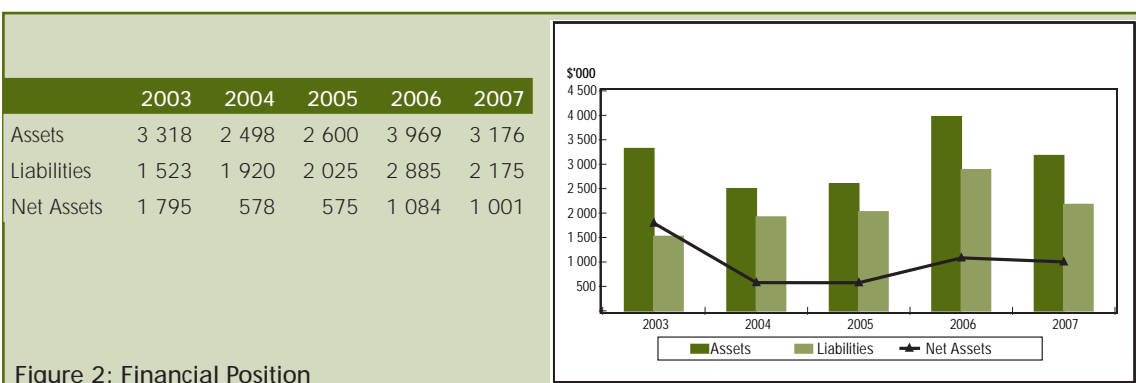
Figure 2 provides an overview of the assets and liabilities position of the Office.

The position of net assets of the Office decreased during the financial year. This was mainly due to decreases in Cash and Cash Equivalents and corresponding decreases in Contractor work in progress liabilities and payments of employee entitlements.

The Office’s asset holdings for 2006-07 comprised mainly Cash and Restricted Cash Assets (32 per cent) and Plant, Equipment and Intangibles (31 per cent). There was a decrease of 22 per cent in Cash and Restricted Cash Assets

when compared to 2005-06. This was mainly due to an increase in payments for employee benefits as a result of increased FTEs, purchase of non-current assets (such as the Office’s roll-out of new laptop computers) and increased costs of supplies and services.

The major component of the Office’s liabilities for the 2007 financial year (75 per cent) relates to employee entitlements. This compared to 57 per cent for the 2006 financial year, an increase of 18 per cent. This was mainly due to an increased provision made for Annual Leave not taken during the year.



Summary of Key Performance Indicators

Table 4 provides an overview of 2006-07 key performance indicator targets and outcomes achieved.

EFFICIENCY

Both the 'cost per matter of significance' and the 'average cost per major audit' were marginally lower than our targets. This was due to effective internal management and improvements in agency preparedness for audit.

The 'average cost per other audit' significantly exceeded our target cost mostly due to costs associated with contracting out audit services.

EFFECTIVENESS

An annual survey of Members of Parliament provides important feedback as to the extent to which the Office's reports and services are useful and fulfil their needs.

Table 4 provides an overview of the three effectiveness indicators, our targets and outcomes achieved.

The 2006-07 outcomes indicate a reduction in agreement 'that the Office is effective in achieving its desired outcome' while conversely there was an increase in agreement that 'the Office reports and services are useful to parliament'. The outcome for the first indicator will be explored through our parliamentary liaison program to assess whether there is a substantive basis for this result.

Summary of Key Performance Indicators			
	2006-07 Target ⁽¹⁾	2006-07 Actual ⁽²⁾	Variation ⁽³⁾
Key Efficiency Indicators			
Average cost per matter of significance	\$33 927	\$32 522	(\$1 405) (4%)
Average cost per major audit	\$140 634	\$137 039	(\$3 595) (3%)
Average cost per other audit	\$20 057	\$25 646	\$5 589 28%
Key Effectiveness Indicators			
Agreement in Parliamentary Census that the Office is effective in achieving its desired outcome	85%	78%	(7%)
Agreement in Parliamentary Census that reports dealt with matters of significance to Parliament	90%	89%	(1%)
Agreement in Parliamentary Census that Office services and reports are useful to Parliament	80%	89%	9%

Table 4

(1) As specified in 2006-07 Budget Statements (Budget Paper No 2, Volume 1), p222.

(2) As specified at page 51 of the Financial Statements and Key Performance Indicators.

(3) Further explanations are also contained on pages 52 to 54 of the Financial Statements and Key Performance Indicators.

Agency Performance – Report on Operations ... continued

Other Indicators of Agency Performance

The indicators set out in Table 5 are not required to be audited but are reported here because they are:

- included in the Office's strategic plan and other strategic documents
- considered critical to the understanding of the Office's operational performance as reflected in the key performance indicators.

What we set out to do	What we achieved	Comments
Reports		
Report 100 Matters of Significance in reports to Parliament.	108	Target exceeded: Result also above last year's figure of 106.
Table in Parliament 6 to 8 stand-alone and follow-up Performance Examinations during the year.	6	Target met: Tabled four stand-alone reports and two public sector performance items.
Table in Parliament 10 to 12 Control, Compliance and Accountability examinations during the year.	10	Target met: Nine reports were tabled and an additional report item was tabled on Western Power Executive Payments in August 2006. One of the nine examinations resulted in a stand-alone report.
Table in Parliament two reports on the results of financial statement, controls and performance indicator audits undertaken during the year.	2	Target met: Two reports on the audits of agencies with reporting dates on 30 June and 31 December respectively were both tabled earlier than the 2005-06 year reports.
Opinions		
Audit the financial statements, controls and performance indicators of 40 government departments; 103 statutory authorities; 16 corporate bodies; 4 universities; 10 TAFE colleges; 10 requests; 16 subsidiaries; 7 cemetery boards and the Annual Report on State Finances.	99% of opinions were issued in time to allow for tabling of annual reports within 90 days	All except two June cycle and all December cycle audit opinions were issued within timelines for responsible Ministers to table annual reports within 90 days of end of financial year. A further three agencies had not submitted their financial statements and performance indicators for audit by that date.
Enquiries and Investigations		
Manage Public Interest Disclosures and conduct other investigations in accordance with professional standards and complete within agreed timelines.	100%	Target met: There were eight special investigations and one PID for 2006-07, compared to seven and four respectively in 2005-06.
Respond to 100% of complaints and enquiries within 10 working days.	61%	Target not met: A number of these enquiries and complaints were complex.
Professional Development (PD)		
Continue implementation of sustainable workforce planning strategies to:		Target 1 met: In 2006-07 a strategic training plan, a 12 month training calendar, and a draft performance management system and process were all drafted and approved. Work commenced on updating policies and processes for PD and Study Assistance.
1 Establish a training framework for future delivery of training against identified skills gaps.	Framework in place	Target 2 met: Training commenced for current target groups and will continue in 2007-08 as per the strategic training plan.
2 Deliver training to current and future target groups.	Commenced delivery of training on a targeted basis	Target 3 – too early to assess whether new strategies will have long term success.
3 Address the attrition of staff.	Attrition rate has fallen	

Table 5



Significant Issues and Trends

Current and Emerging Issues and Trends

PUBLIC AND PARLIAMENTARY INTEREST IN PUBLIC SECTOR PERFORMANCE

The confidence of Parliament and the community in public sector performance remains a high area of interest, demonstrated by the number of enquiries and complaints and Public Interest Disclosures received. (Refer pages 62 to 63 for more detail). The introduction of the AG Act in February 2007 has significantly strengthened the Auditor General's role with Parliament. While he is not subject to direction he must have regard to audit priorities of Parliament and the interest of the Public Accounts and the Estimates and Financial Operations committees in relation to the Office's budget and structure.

The Public Accounts Committee of the Legislative Assembly (PAC) has also established a new approach to following up reports tabled by the Auditor General. Agencies are now required to report, within 12 months of tabling, to the PAC on their progress with implementing recommendations from our reports. The PAC reports agency progress to Parliament. This approach by the PAC is expected to make a valuable contribution to accountability and improved performance of agencies.

SHARED CORPORATE SERVICES

The ongoing implementation of Shared Services has required a reappraisal of approaches to attest audit work and evaluation of many new systems and controls being put in place. In 2006-07 the focus was on evaluating information systems and as a result a new set of audit tools was developed and implemented to analyse multi-agency data across the shared services data base. Work on approaches to managing shared services audits will continue in 2007-08, noting that in the longer term there may be audit efficiencies gained as standardisation of corporate services and a reduction in the number of corporate information systems continues to evolve.

GOVERNMENT INFORMATION TECHNOLOGY SYSTEMS

The ever increasing importance and complexity of information technology systems in government continues to require more audit effort. Reports, and audit findings arising from examinations of this area feature as a major product of the Office. Common themes continue to relate to required improvements in business continuity planning, security and disaster recovery.

Significant Issues and Trends ... continued

THE TIMELINESS AND QUALITY OF AGENCY WORKING PAPERS

The timely submission by agencies of quality working papers to support their financial statements is critical to the audit process and to meeting Parliament's requirements for earlier annual reporting. Improvement by some agencies is evident but it is an educative process that remains an ongoing priority for the Office.

SKILLS SHORTAGES

The ongoing skills shortage is impacting on both the Office and the wider public sector. There is a high level of competition to attract scarce resources from a shrinking labour market of audit and finance professionals from the public and private sectors. Competition between these sectors is also affecting the Office's ability to retain qualified staff. Despite this the Office was able to recruit 10 new graduates in 2007 and has made a significant investment in professional development across all levels to meet the challenges of attraction and retention. These factors put pressure on audit costs and highlight the importance of a strategic approach to workforce management and development in coming years.

TOPIC SELECTION

Advancing technology, changing demographics, environmental pressures and a strong economy are having a major impact on the community and the public sector. Increased awareness and recognition of the impacts of these areas provide fertile grounds to inform future areas of examination. Consideration of these areas, together with the use of feedback from Parliament, the community and our attest audit work enables the Office to be proactive in determining its forward program of work.

CHANGES IN WRITTEN LAW

The AG Act and the FM Act made major changes to the legislative framework for public sector financial management and accountability. To address these, as well as recent and expected changes in standards, the Office has identified the following areas of focus:

- corporate governance activities – audit committee, risk management and internal audit
- operational activities – financial management, information systems controls and shared services
- financial reporting and contaminated sites disclosures.

Future Directions

We will work towards strengthening the relationship with Parliament as we both continue to explore new possibilities and responsibilities created by the AG Act.

As foreshadowed in the Overview (pages 2 to 6) significant attention will be on strategic planning and resourcing the Office to build capacity and capability beyond 2008-09. Use of private sector audit firms will continue to be a feature of operations while at the same time ongoing investment in attraction and retention strategies occurs.



Disclosures and Legal Compliance

Financial Statements and Key Performance Indicators

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Disclosures and Legal Compliance ... continued

Office of the Auditor General

Certification of Financial Statements for the year ended 30 June 2007

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 ending 30 June 2007 and the financial position at 30 June 2007.

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



COLIN MURPHY
ACCOUNTABLE AUTHORITY



SANDY THOMSON
CHIEF FINANCIAL OFFICER
30 August 2007