



Government of **Western Australia**
Department of **Treasury**

CHIEF FINANCE OFFICERS' WEBINAR

JULY 2022





Government of **Western Australia**
Department of **Treasury**

2022-23 Budget Debrief

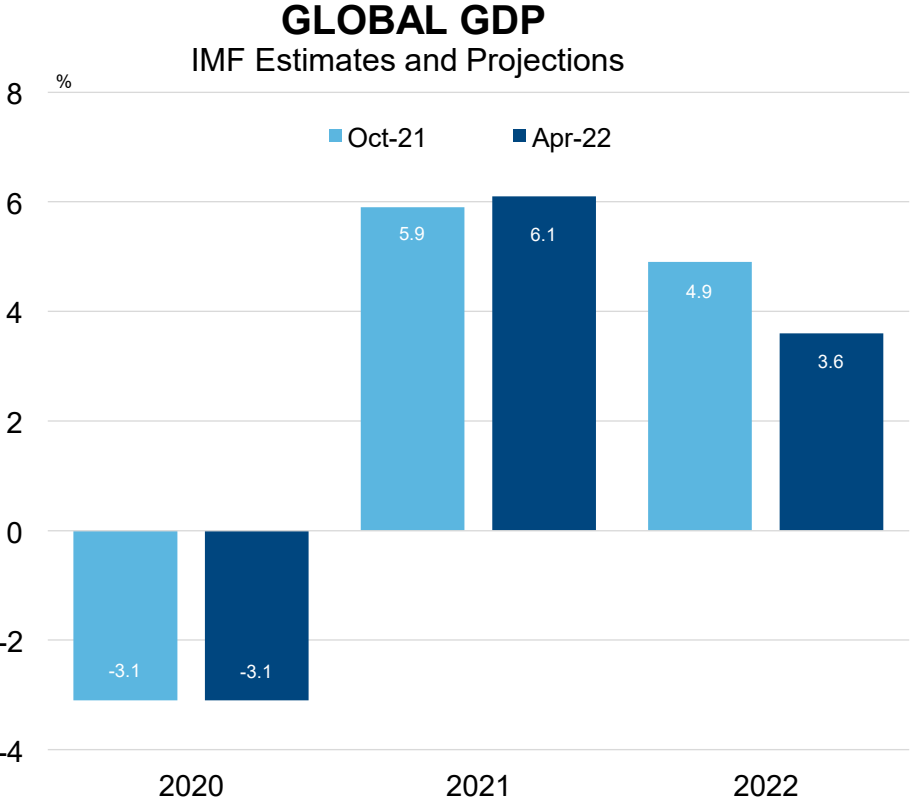
Michael Court
Deputy Under Treasurer

Overview

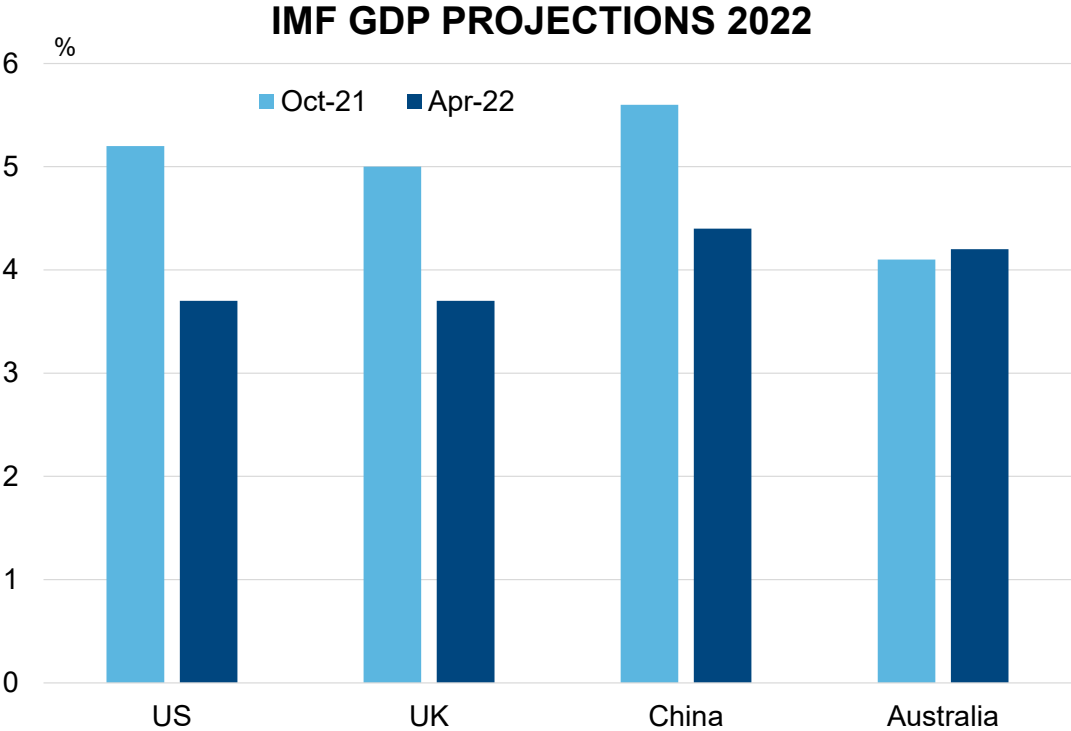
- ▶ Economy continues to grow strongly – SFD increased 7% in annual average terms (March Quarter National Accounts)
- ▶ March Quarterly Financial Results Report confirms stronger economy and elevated commodity prices flowing through to State's fiscal outlook
 - ▷ Higher operating surpluses resulting in lower net debt
- ▶ Budget underpinned by conservative economic and revenue assumptions in face of global uncertainty and domestic challenges
 - ▷ Slowing world growth and rising inflation/interest rates
 - ▷ Ongoing supply chain disruptions (eg COVID, weather events)
 - ▷ Labour and materials impacts on private and public project delivery, and workforce challenges for frontline service delivery
 - ▷ Cost of living pressures

Global economic outlook has deteriorated in recent months

Following a strong recovery in 2021, the IMF has revised down its global growth forecast for 2022 – with downward revisions in the US, Europe and China



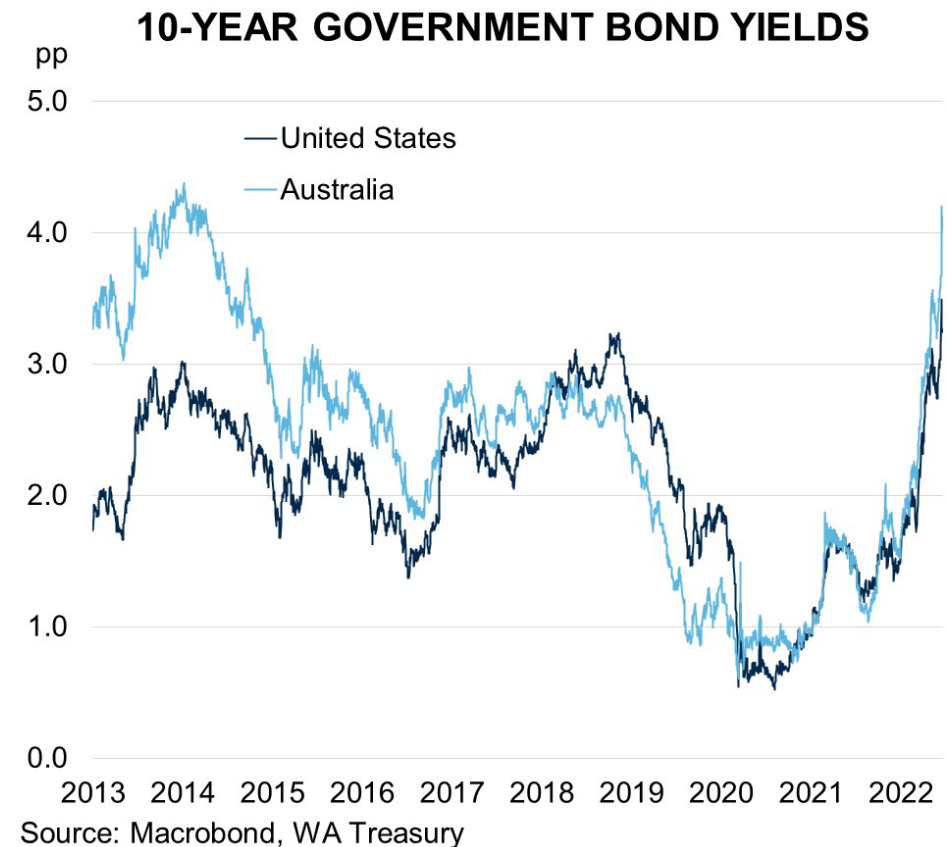
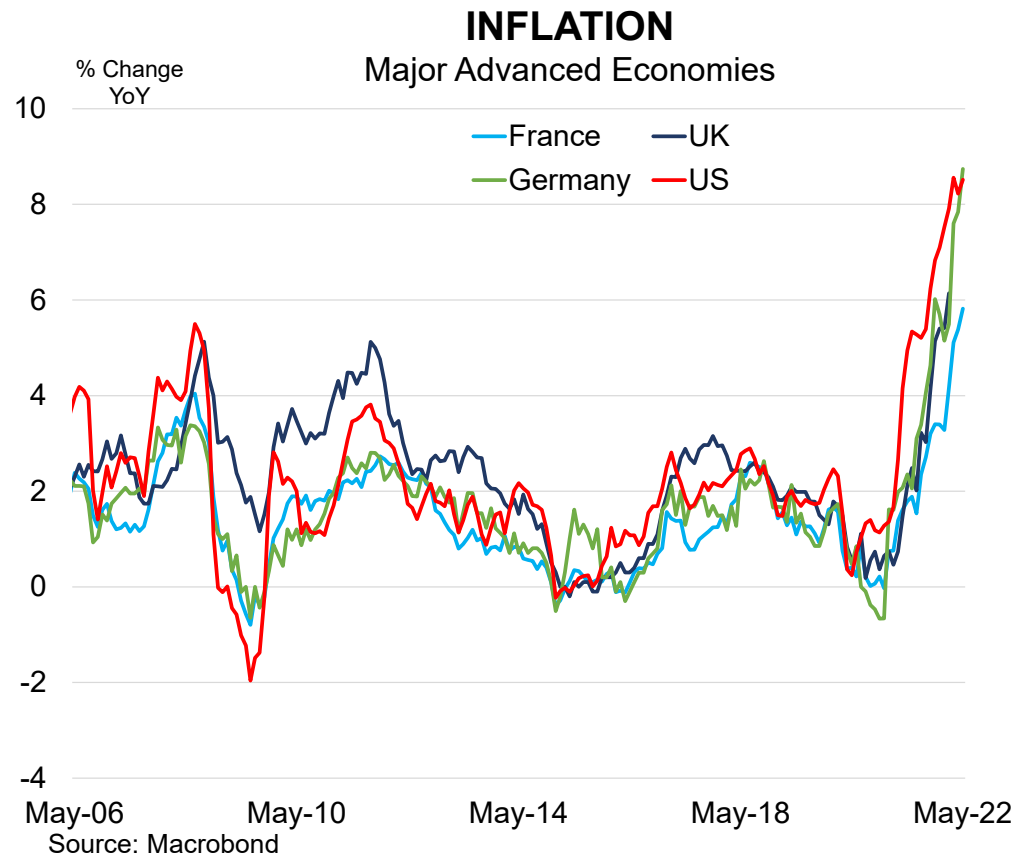
Source: IMF



Source: IMF

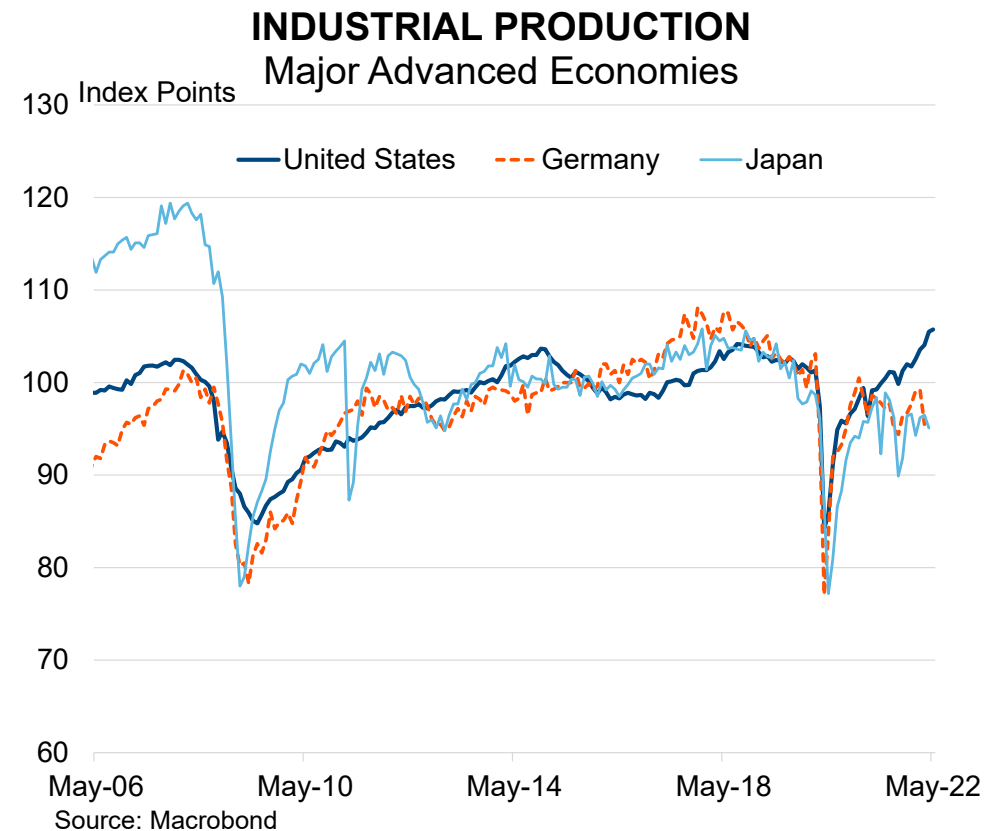
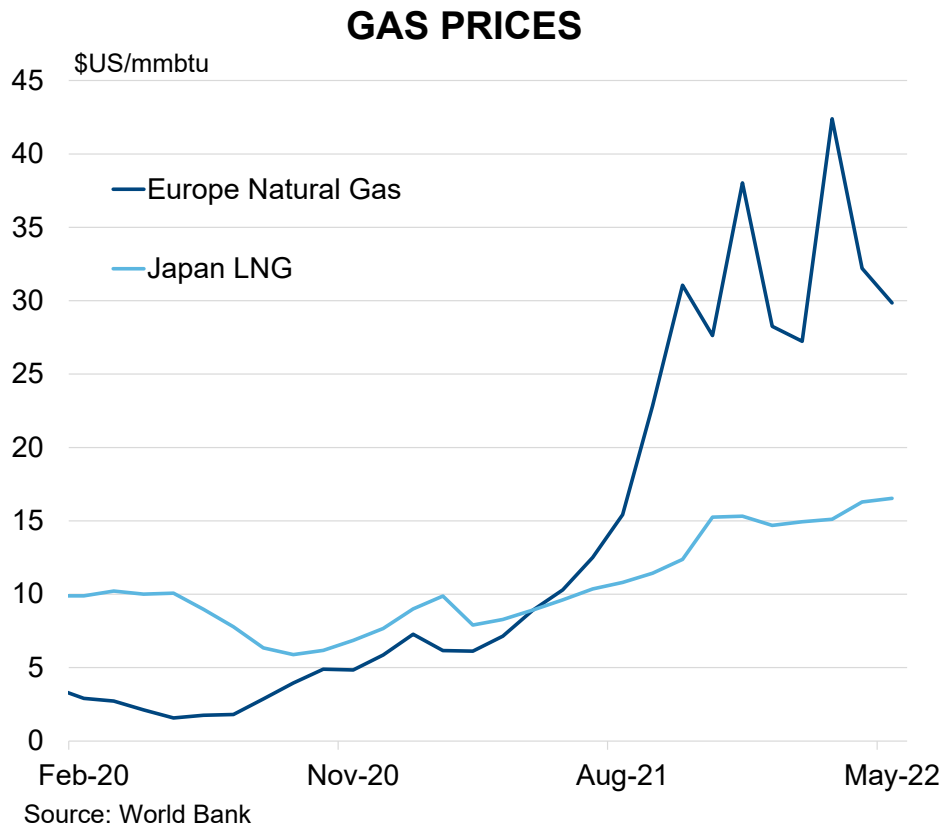
Rising inflation leading to higher interest rates

Bond yields have increased in response to sharply higher inflation, with the raising of rates by central banks posing risks to global growth



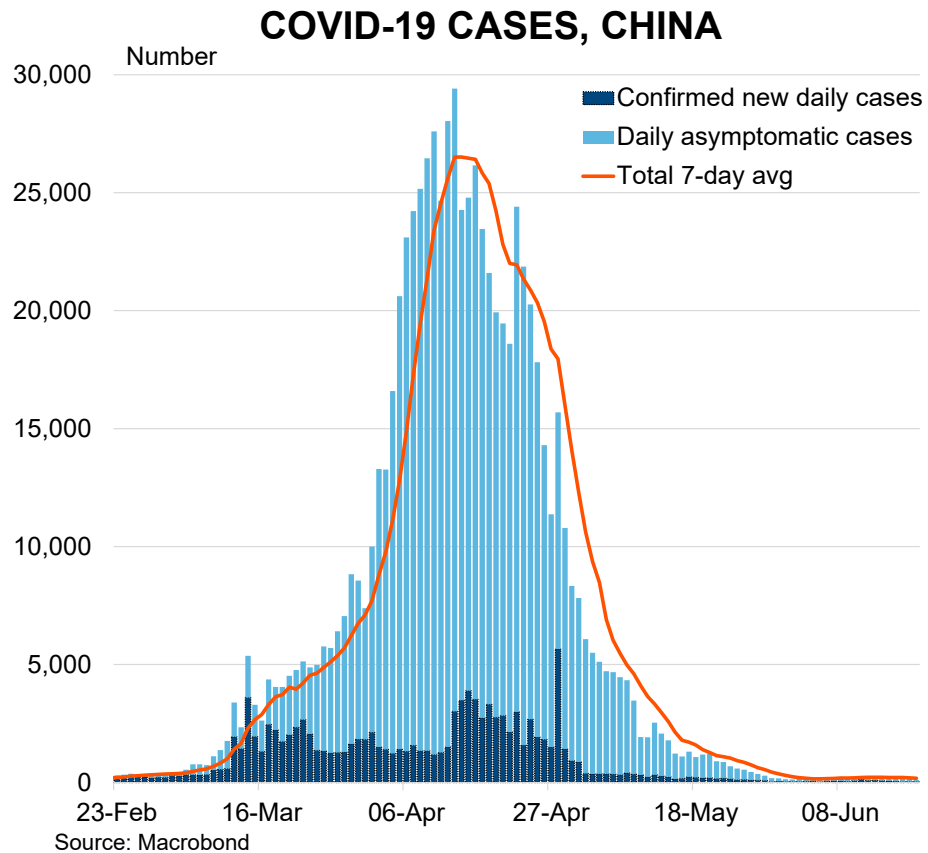
Rising energy prices

Sanctions on Russia and rising energy prices are impacting economic activity, especially in Europe



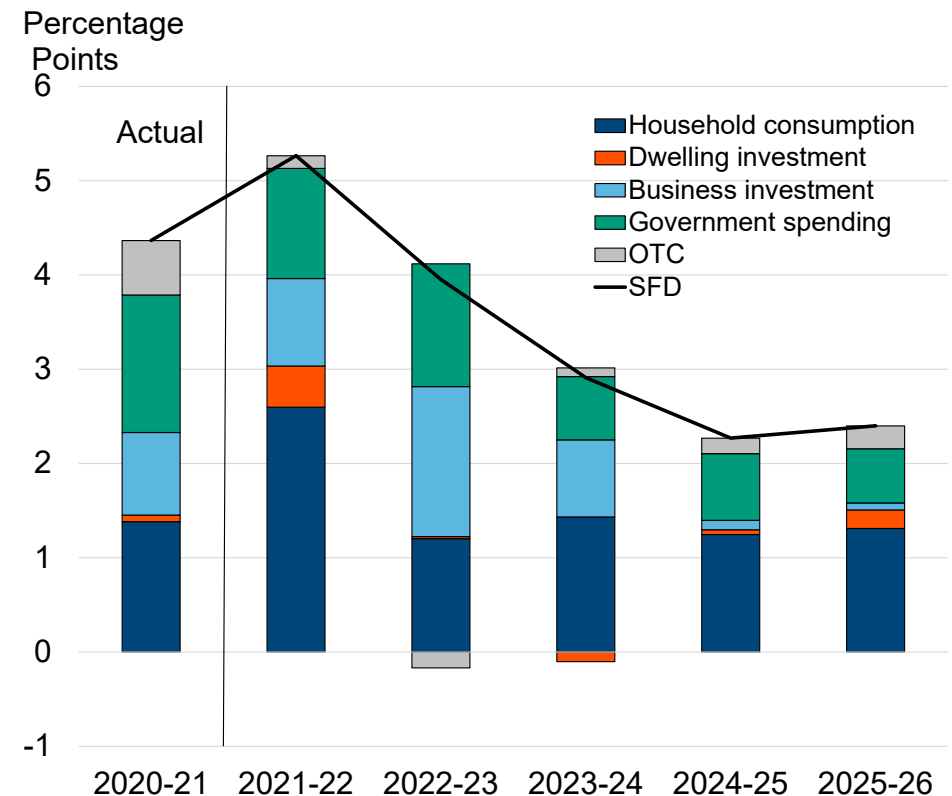
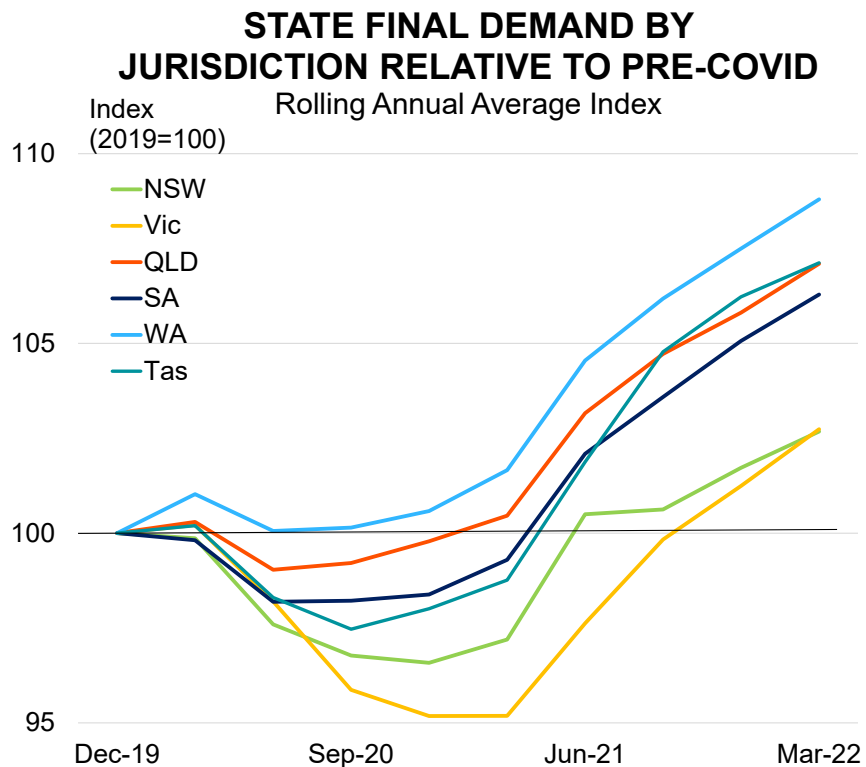
China's 'zero COVID' policy

Lockdowns in China to control COVID-19 have reduced consumption and manufacturing activity



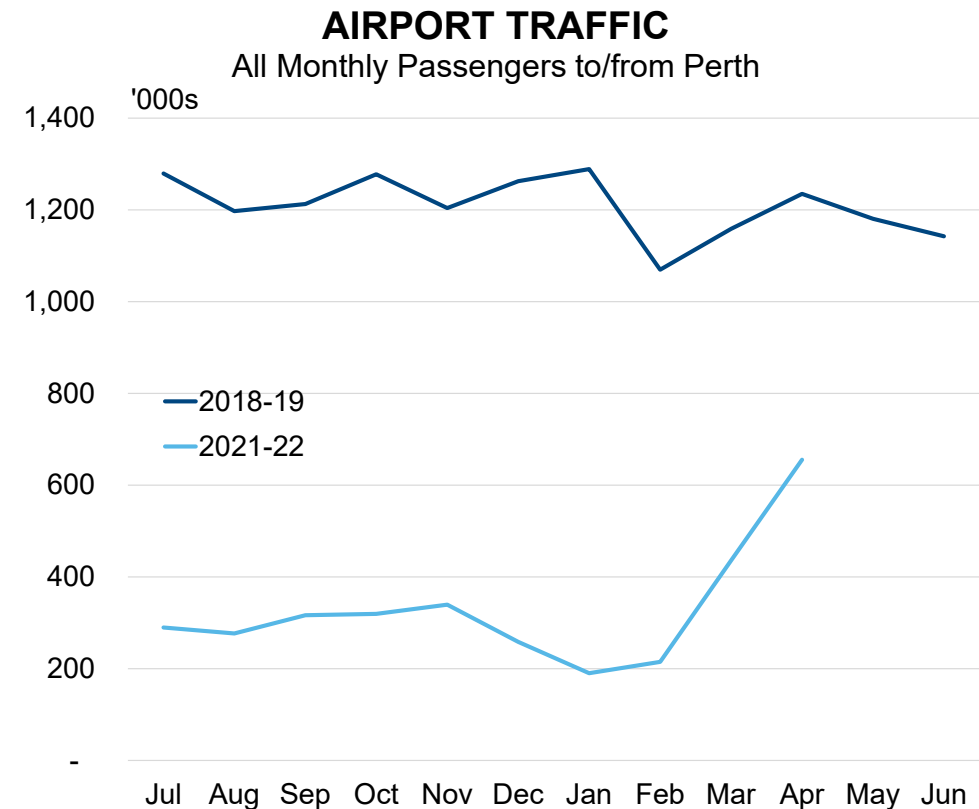
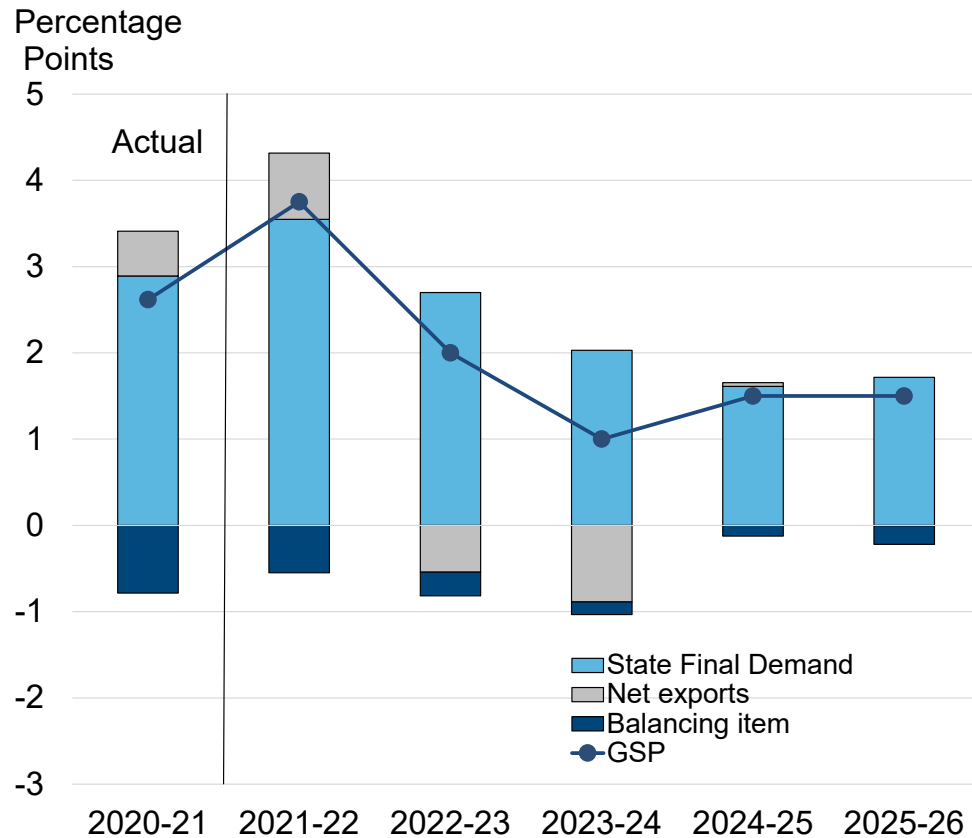
Strong and broad-based economic performance

- ▶ Western Australia's economy has performed the strongest of the States during the COVID-19 pandemic – with all components of the domestic economy contributing to growth
- ▶ Domestic economy is forecast to grow by 5.25% in 2021-22, the strongest in a decade, with 4% growth projected in 2022-23



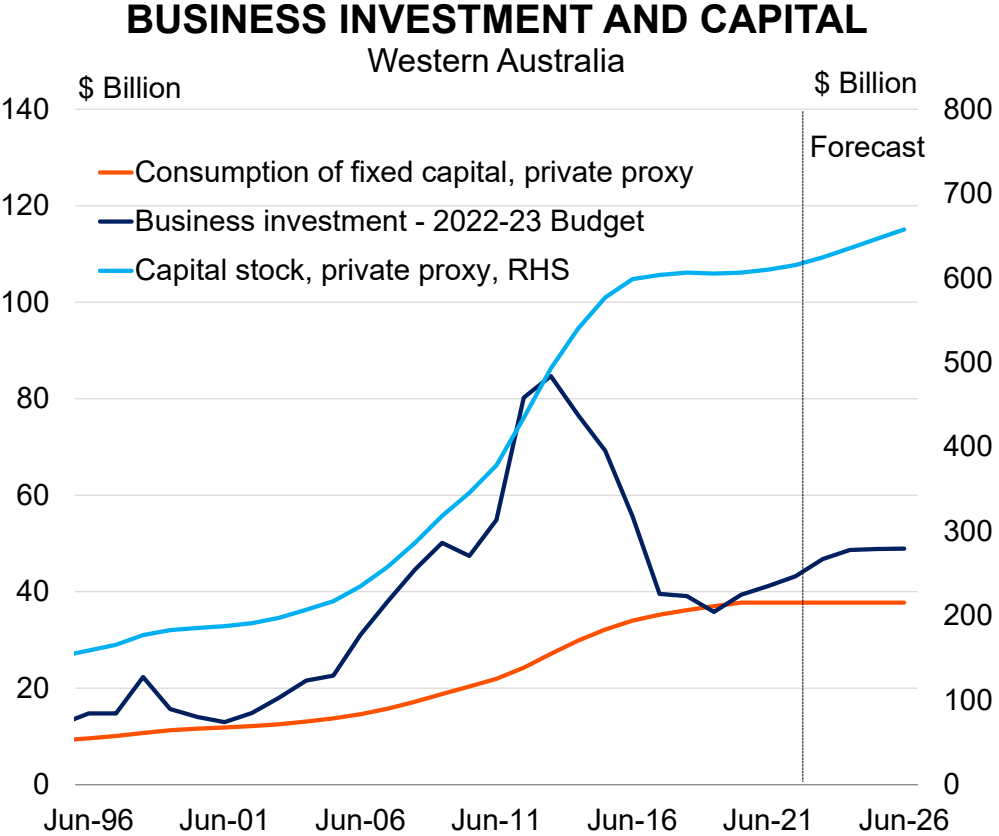
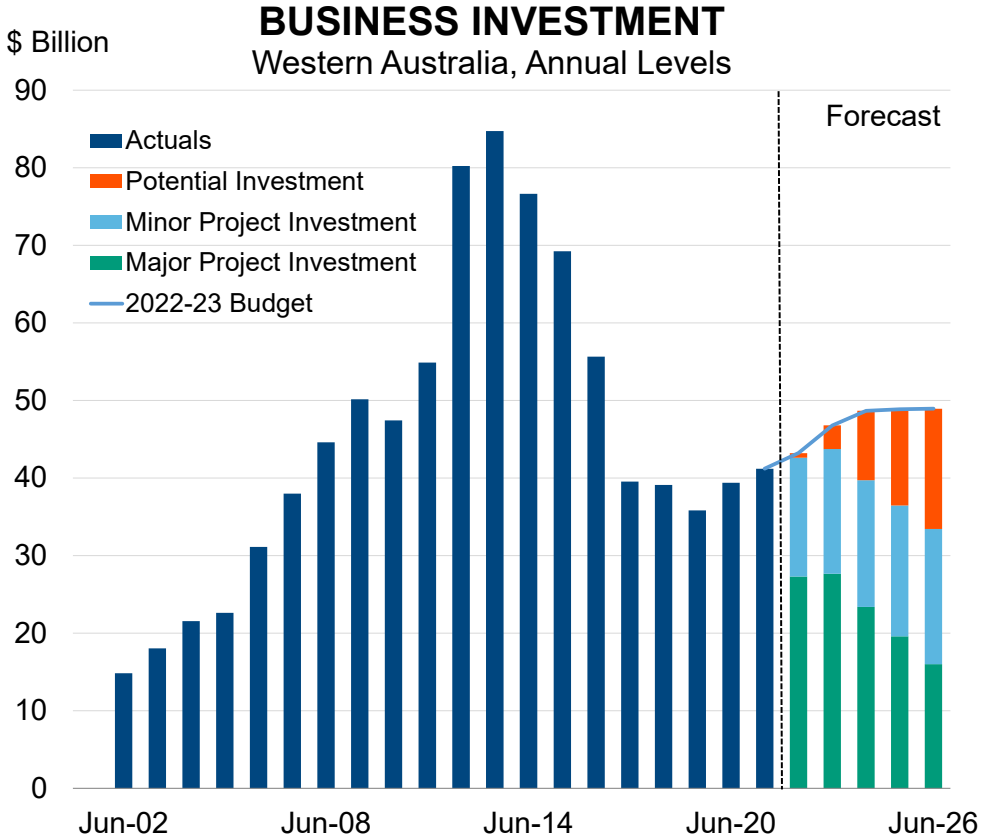
WA economic outlook

- ▶ Growth in Gross State Product at 3.75% in 2021-22 is the strongest rate of growth since 2013-14, although growth is expected to moderate in the next two years as international travel patterns normalise



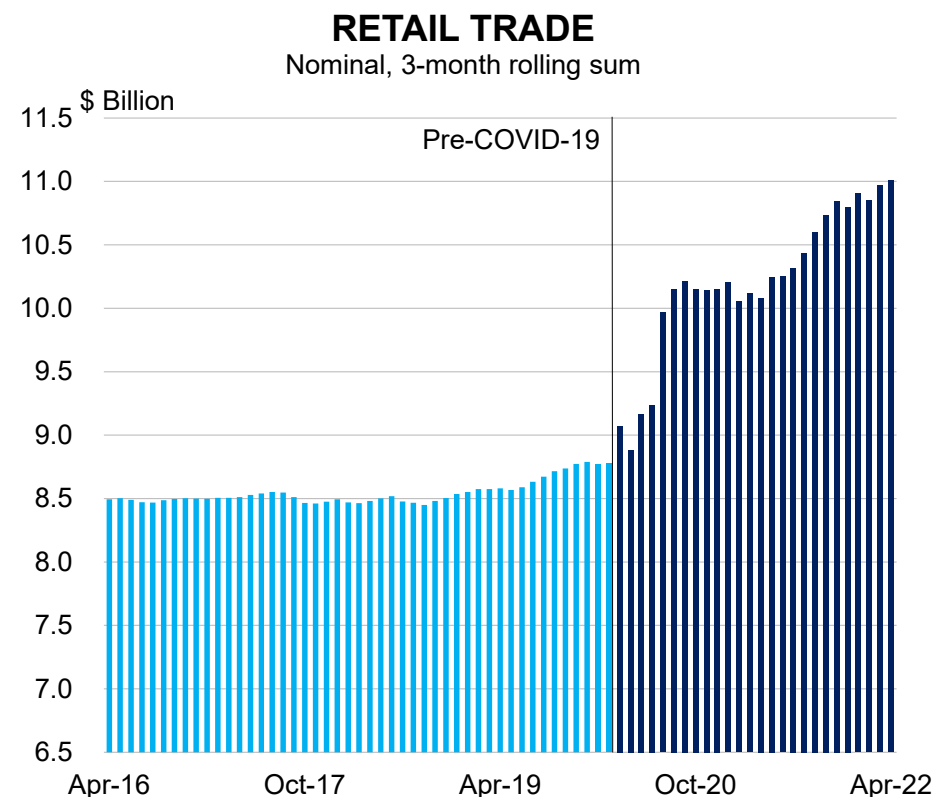
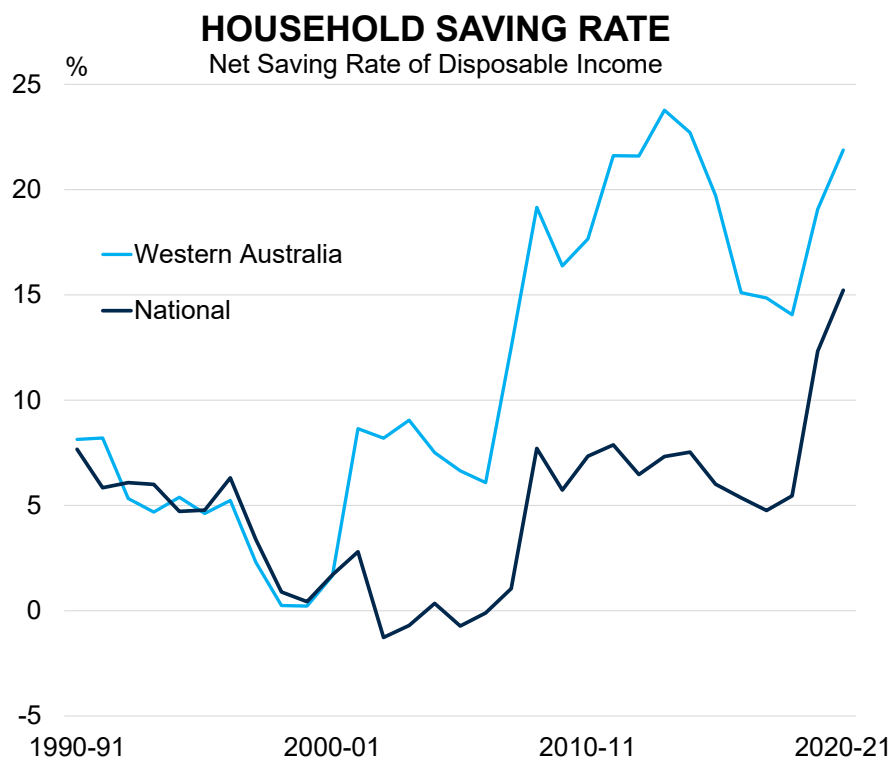
Business investment profile

- ▶ The investment pipeline is substantial, with a strong outlook across a range of commodities
- ▶ Labour shortages and supply chain disruptions have resulted in some delays to investment spending for smaller businesses
- ▶ Across the resources sector, capital expenditure to sustain current operations will also support investment spending, as companies look to maintain strong levels of production.



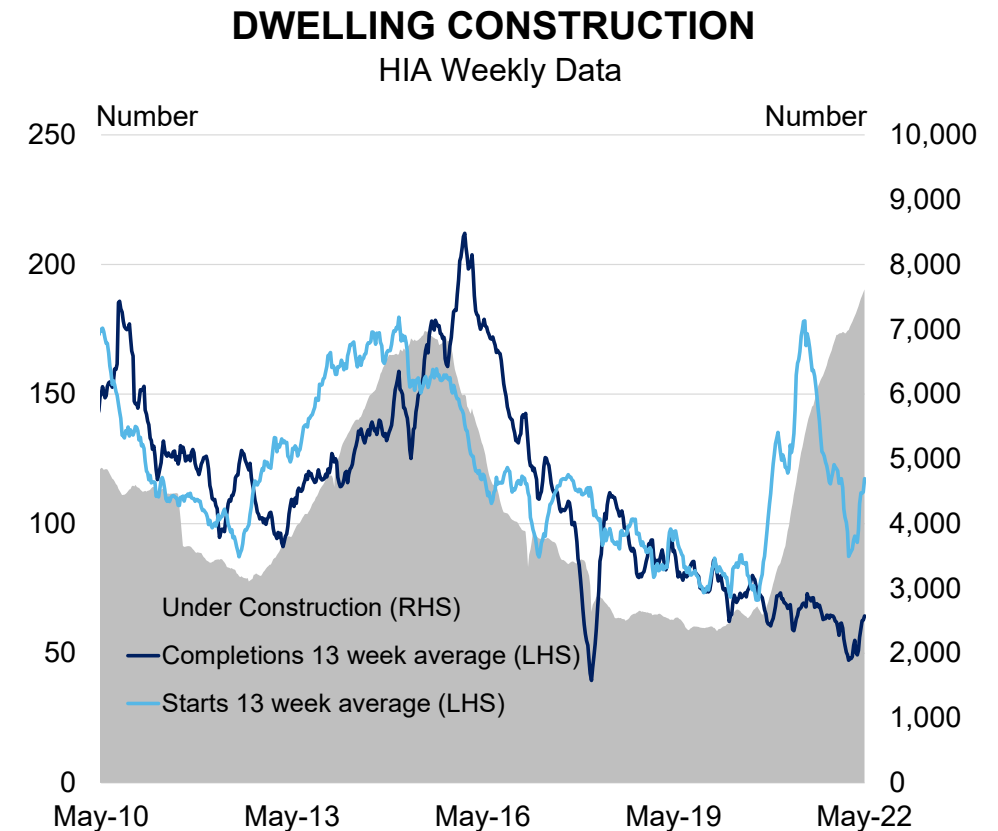
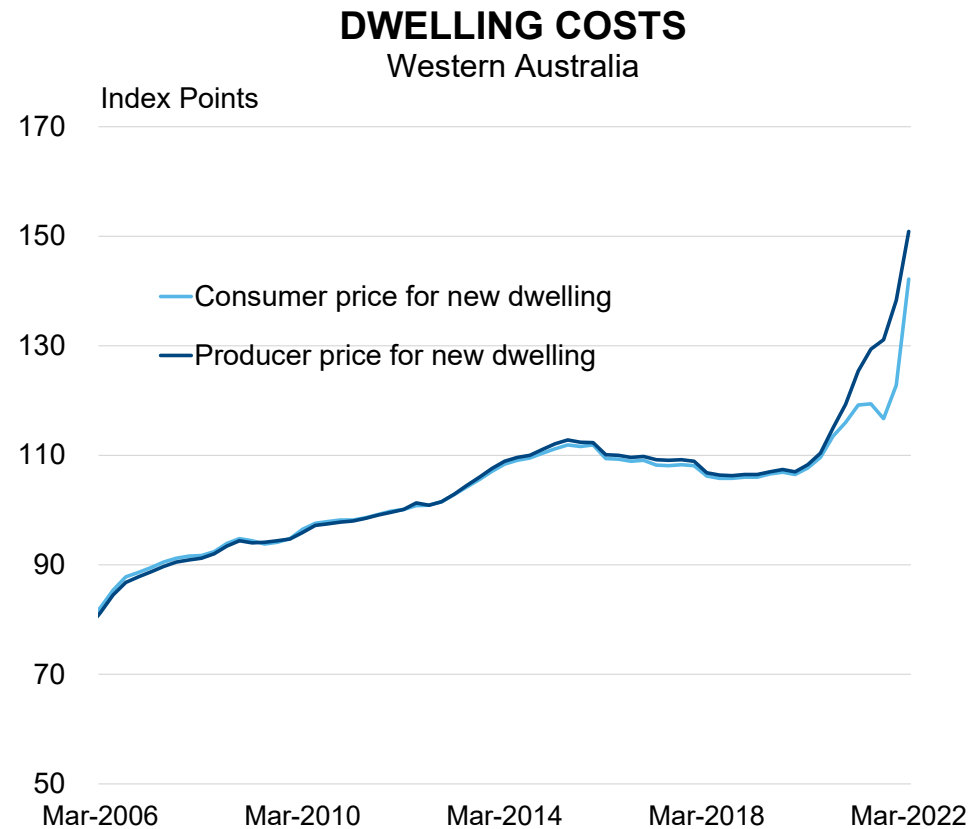
Household spending

- ▶ Household consumption has continued to exceed expectations, with growth in spending accelerating to 7.4% in the year to March quarter 2022 – the strongest annual rate since 2007
- ▶ Rising inflation / interest rates may dampen spending growth but high savings rate and increasing income provide buffer



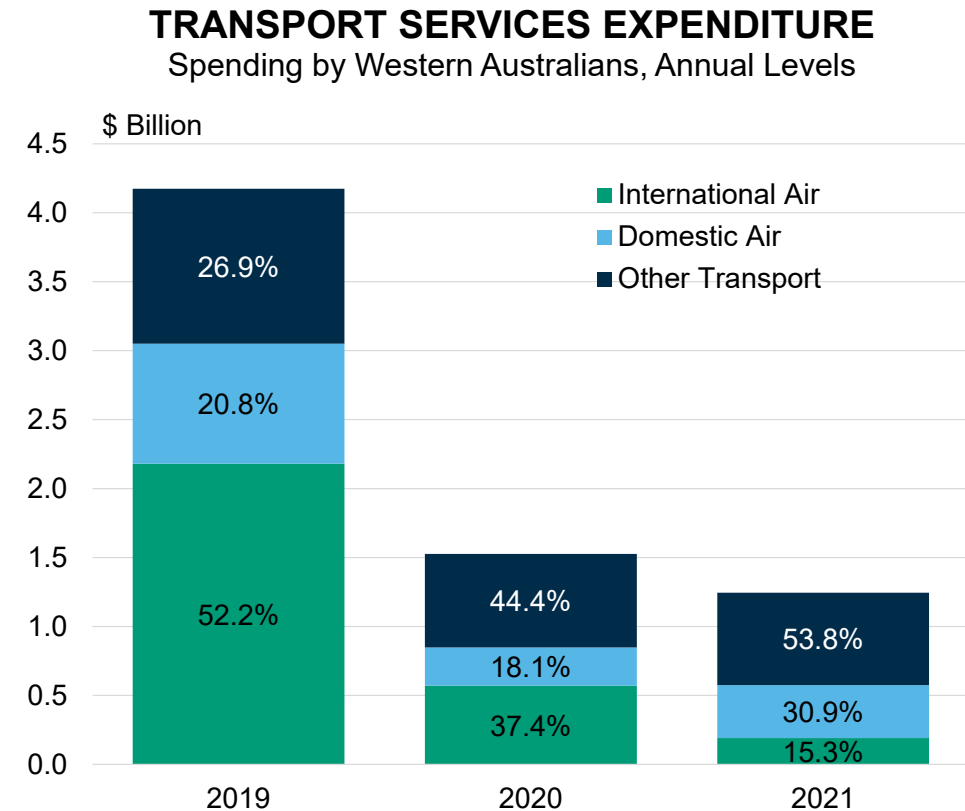
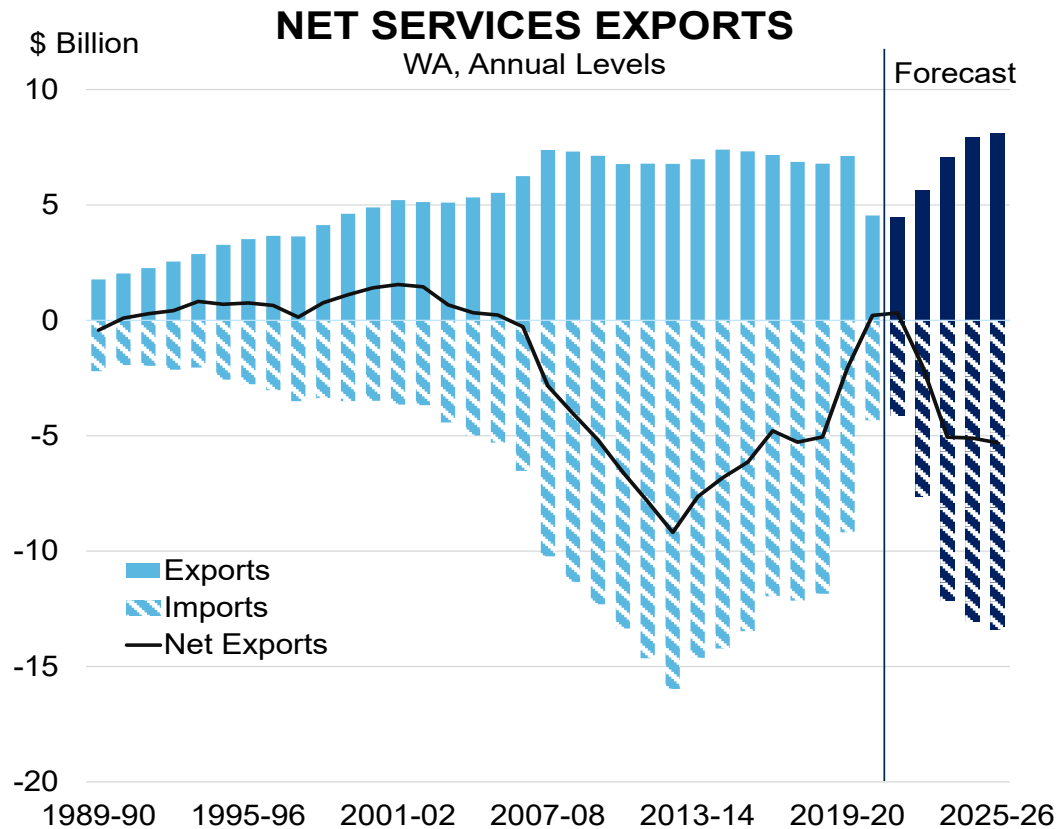
Residential construction

- ▶ Labour and material (e.g. timber) shortages leading to strong increases in residential construction costs
- ▶ Dwelling completion times pushed out from around 9-12 months to up to 24 months



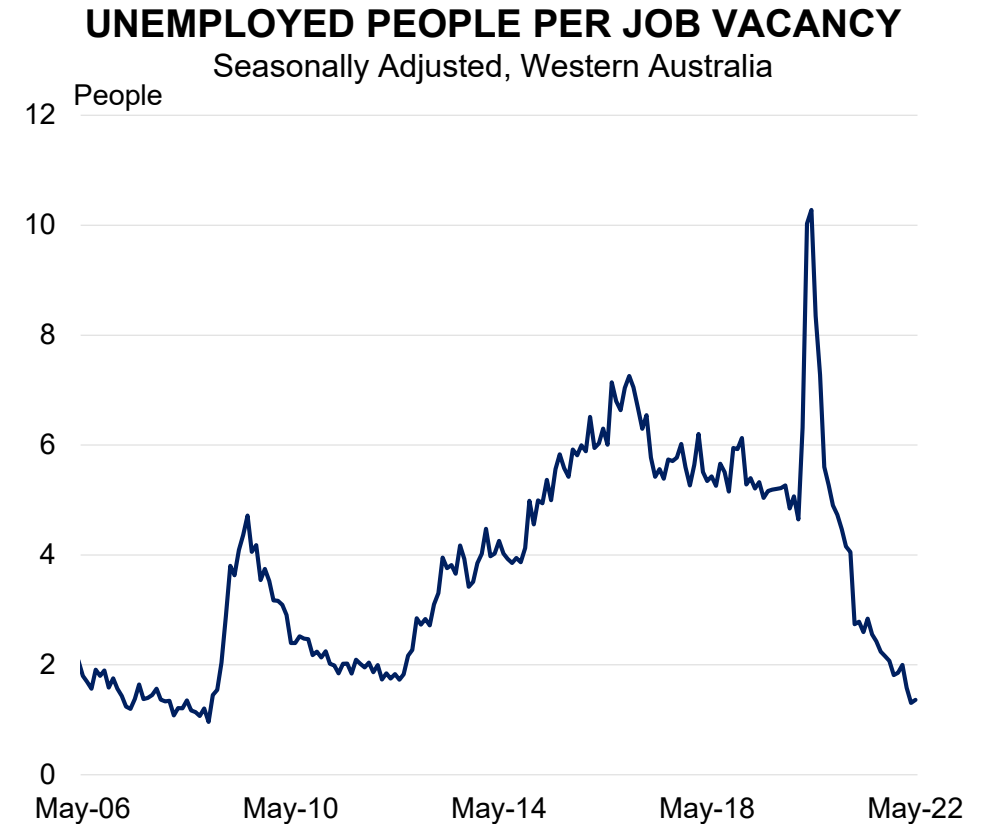
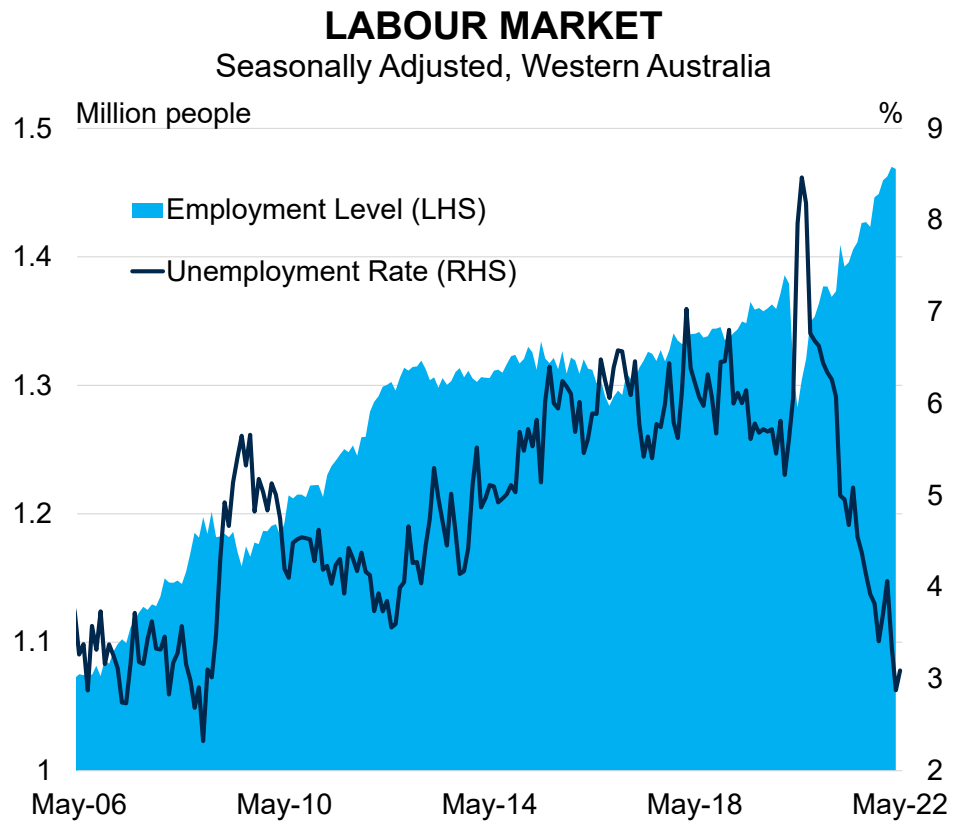
Services imports and exports

As international borders reopen, Western Australians are expected to spend more travelling overseas (services imports) than international visitors and students are expected to spend in the State (services exports) – detracting from overall economic growth



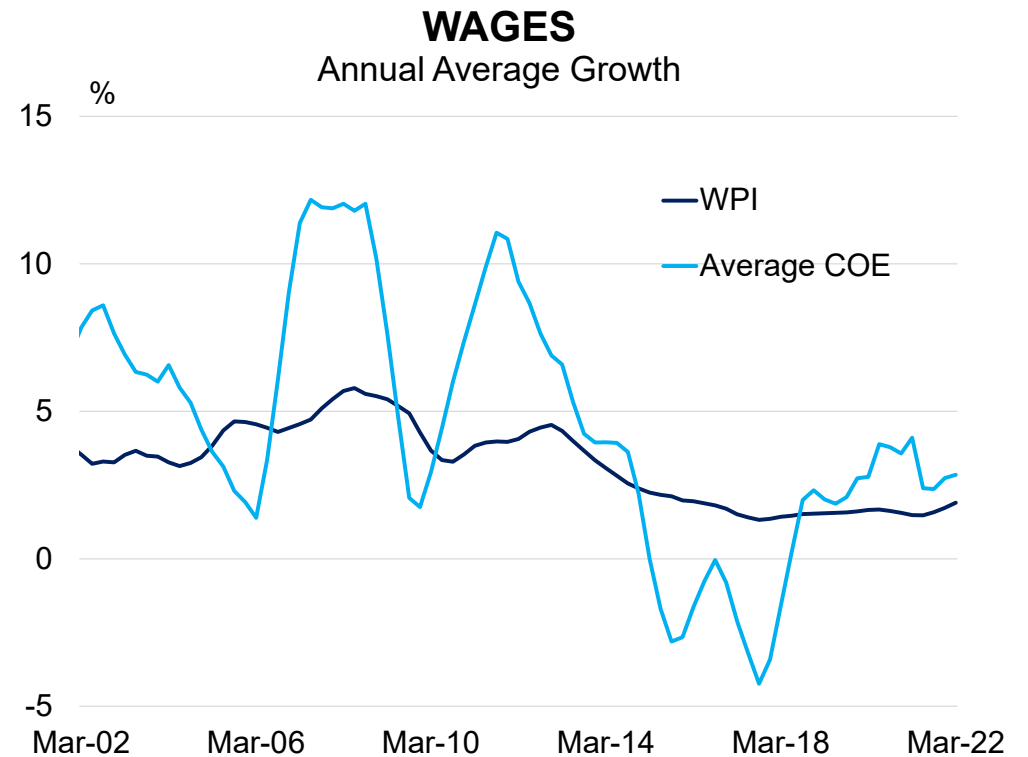
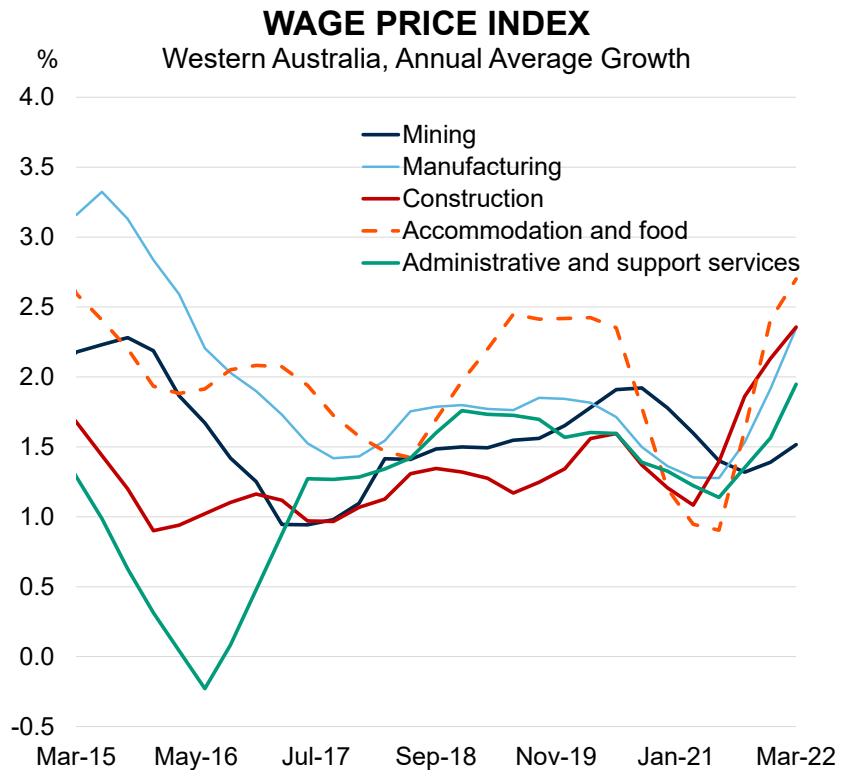
Labour market

- ▶ The labour market is very tight with a variety of sectors struggling to fill vacancies
- ▶ Employment at record levels and unemployment rate is just 3.1% – the lowest in the nation – with just 1.4 unemployed people per job advertisement
- ▶ Yet wages still only growing by ~2%



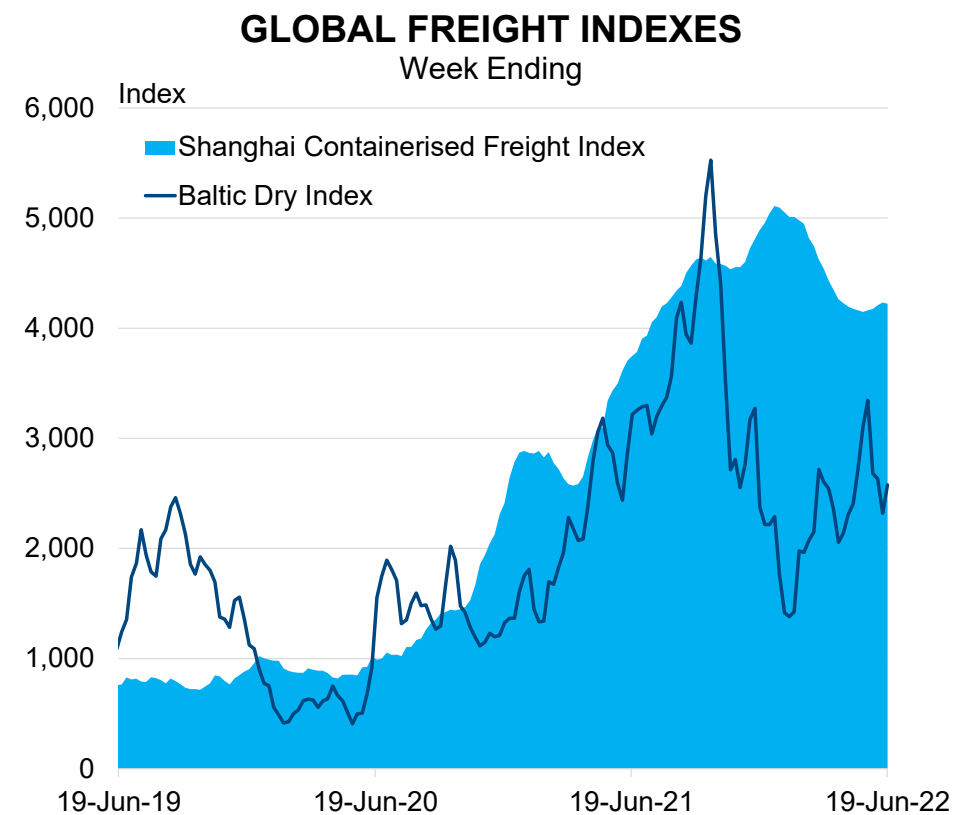
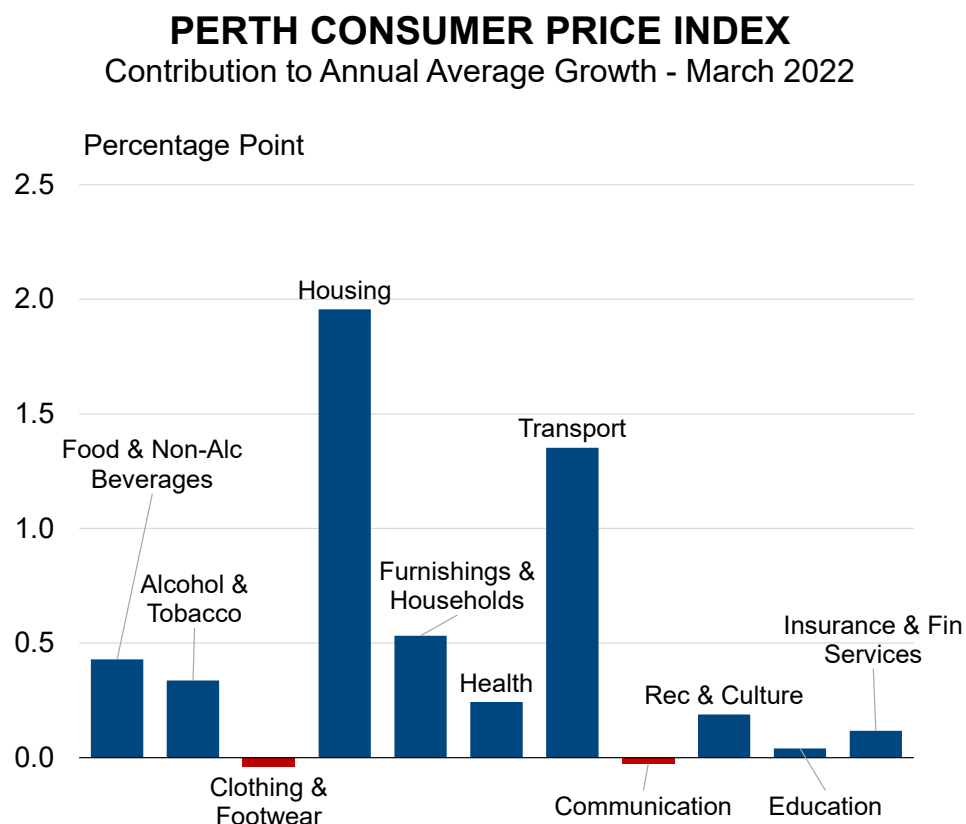
Wages growth

- ▶ Despite unemployment rate at 13 year low, the Wage Price Index only growing by ~2% on aggregate
- ▶ However, other measures of wages which capture the use of targeted bonuses and one off payments, as well as flexible work policies, show more elevated growth



Perth consumer prices

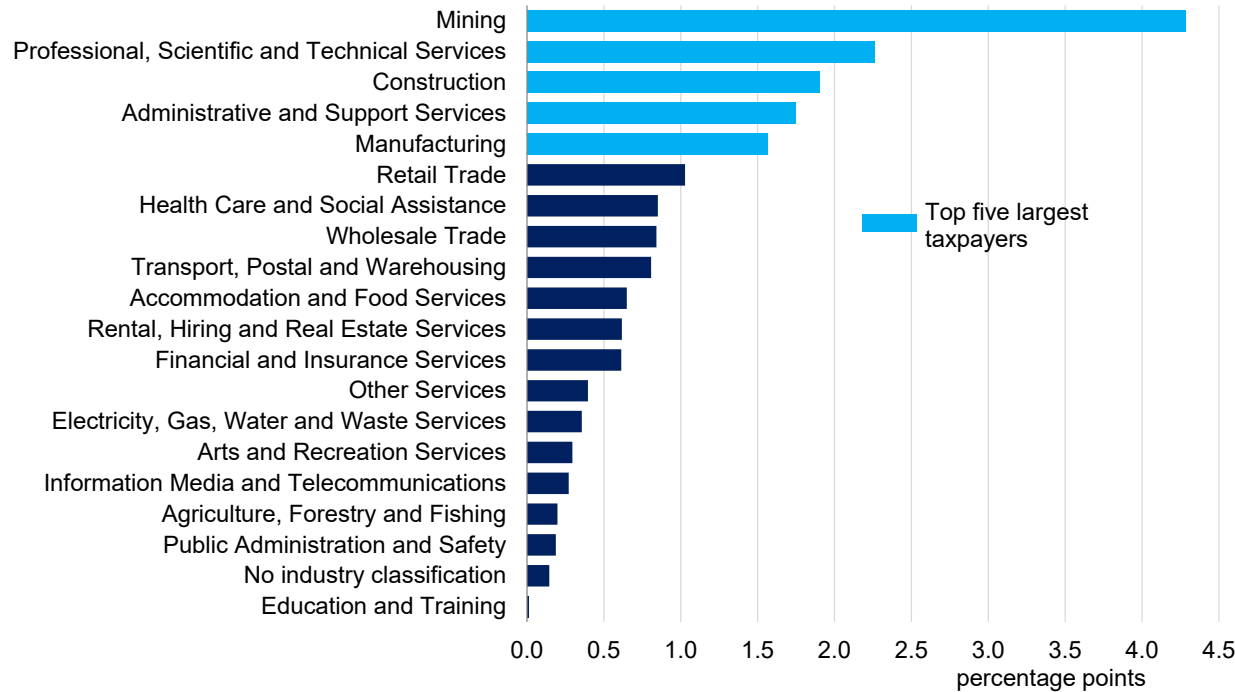
- ▶ Consumer prices have risen rapidly, concentrated in housing (construction and rents) and transport (fuel)
- ▶ But signs that global supply chain pressures may have eased from their recent peak



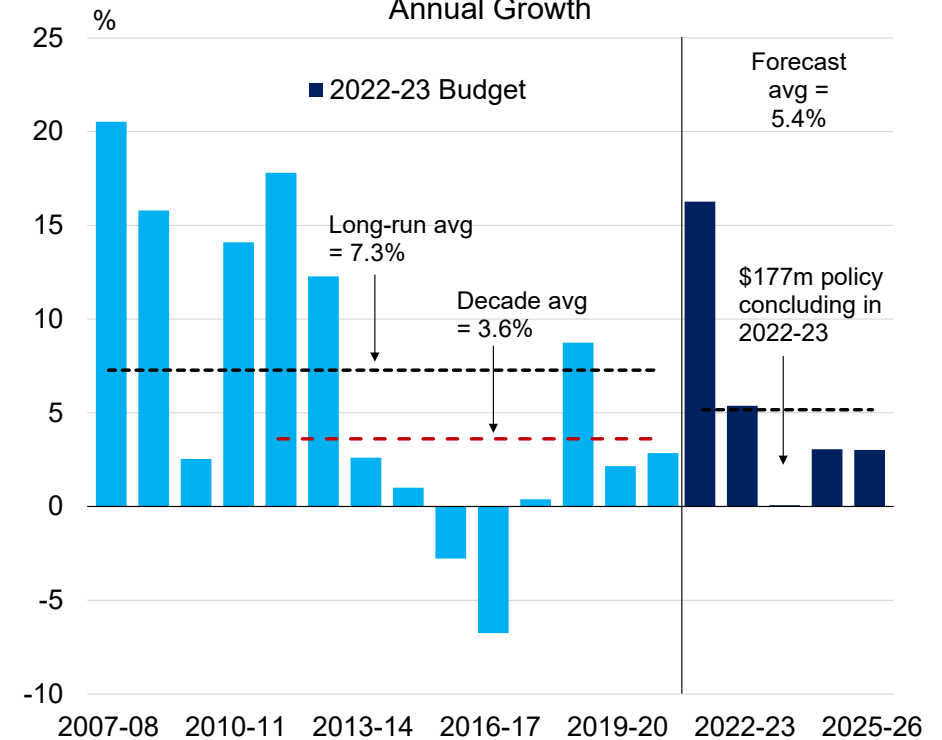
Payroll tax

- ▶ Payroll tax grew by almost 20% in the year to May – the strongest growth since 2008
- ▶ All industries are contributing to growth, highlighting broad-based nature of recovery
- ▶ Moderation in payroll tax growth over the forward estimates reflects more modest employment growth and cessation of temporary progressive payroll tax scale for large employers

Payroll Tax by Industry, May 2022
Percentage Point Contribution to Annual Average Growth

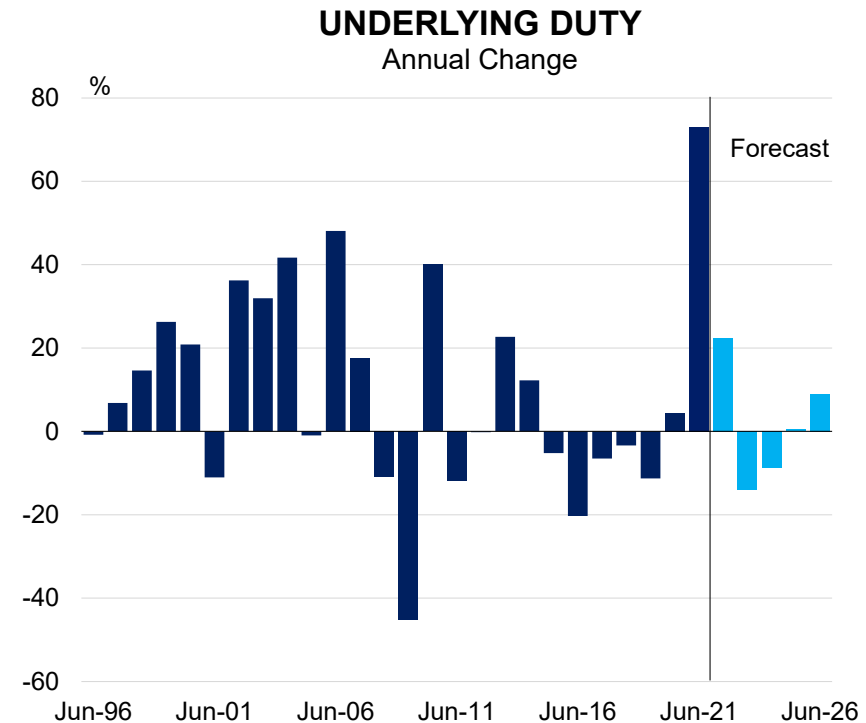
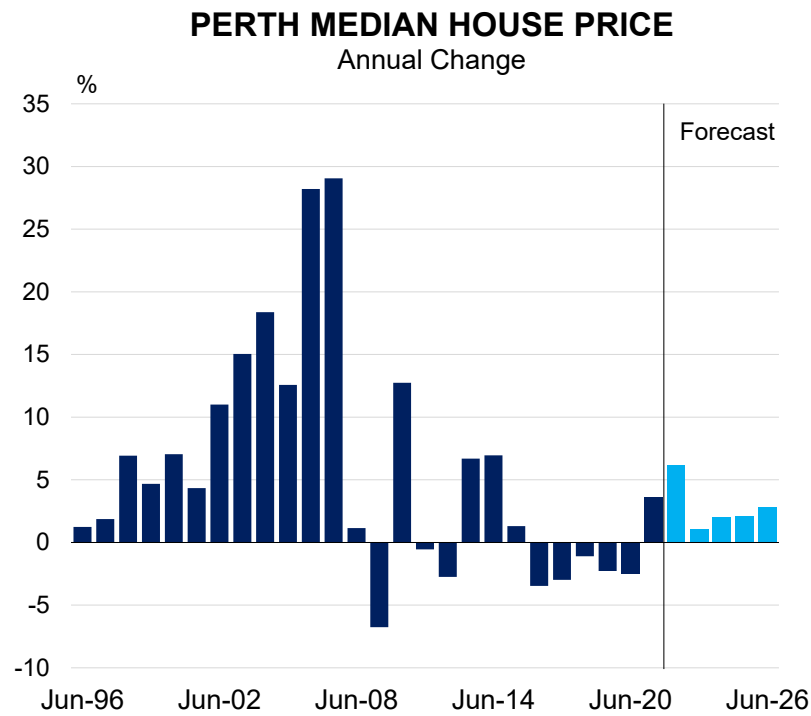
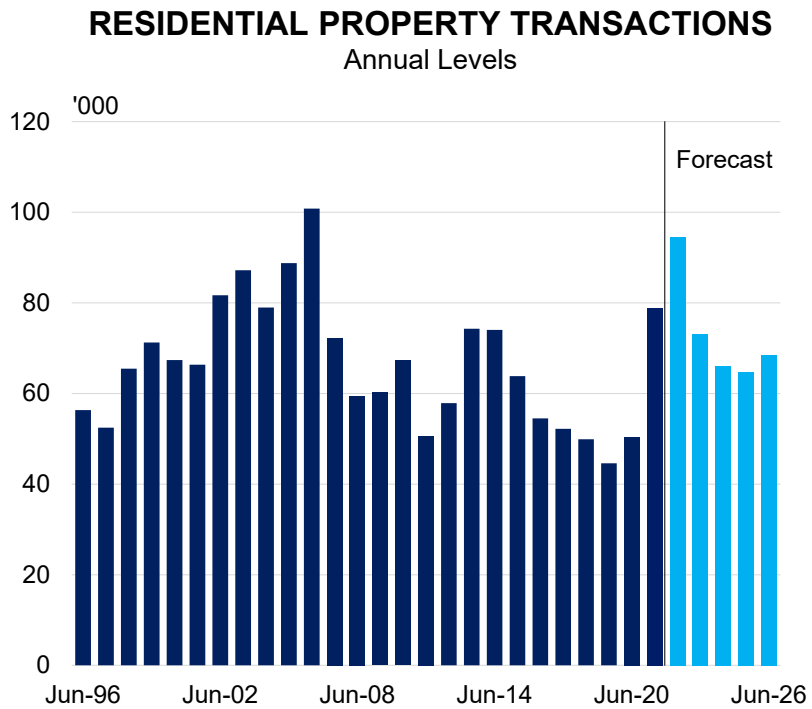


PAYROLL TAX
Annual Growth



Transfer duty

- ▶ Transfer duty has been supported by a very strong lift in residential property transactions and house price appreciation
- ▶ Nevertheless, duty expected to moderate over forecast period as interest rates lift

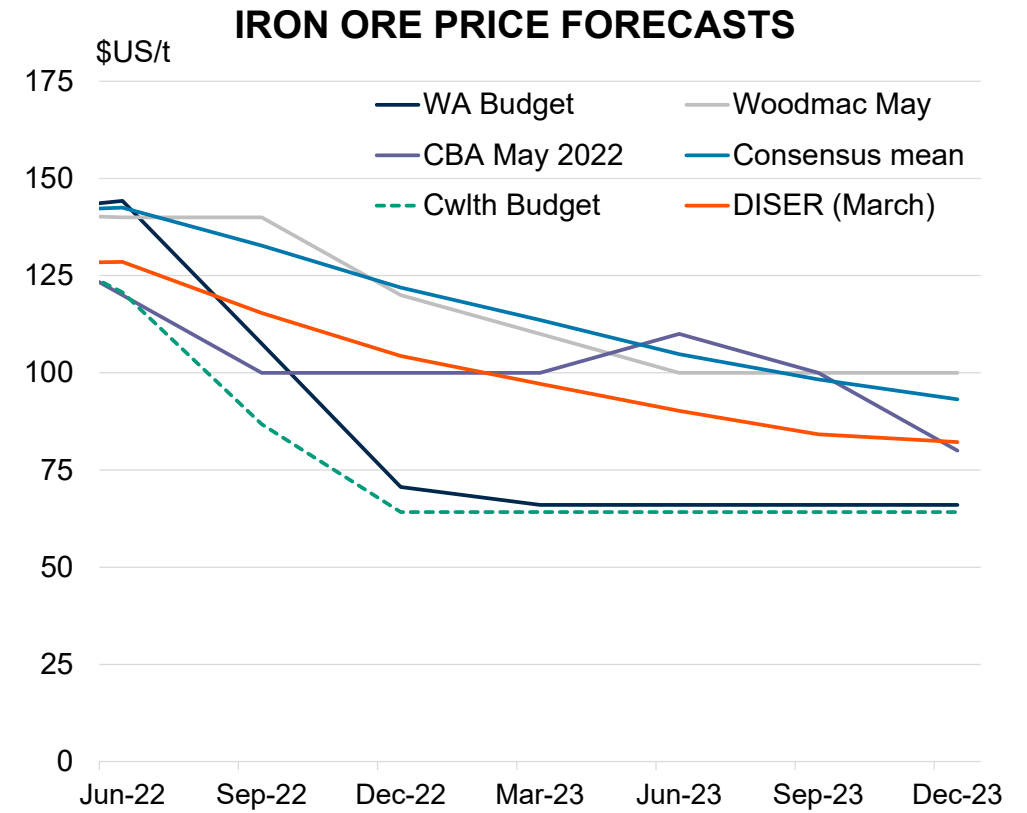


Iron ore

- ▶ Iron ore prices remain volatile (particularly due to COVID lockdowns in China), but supported by expectations of fairly robust demand
- ▶ Budget assumes iron ore price reverts to long-run average (\$US66) from November 2022



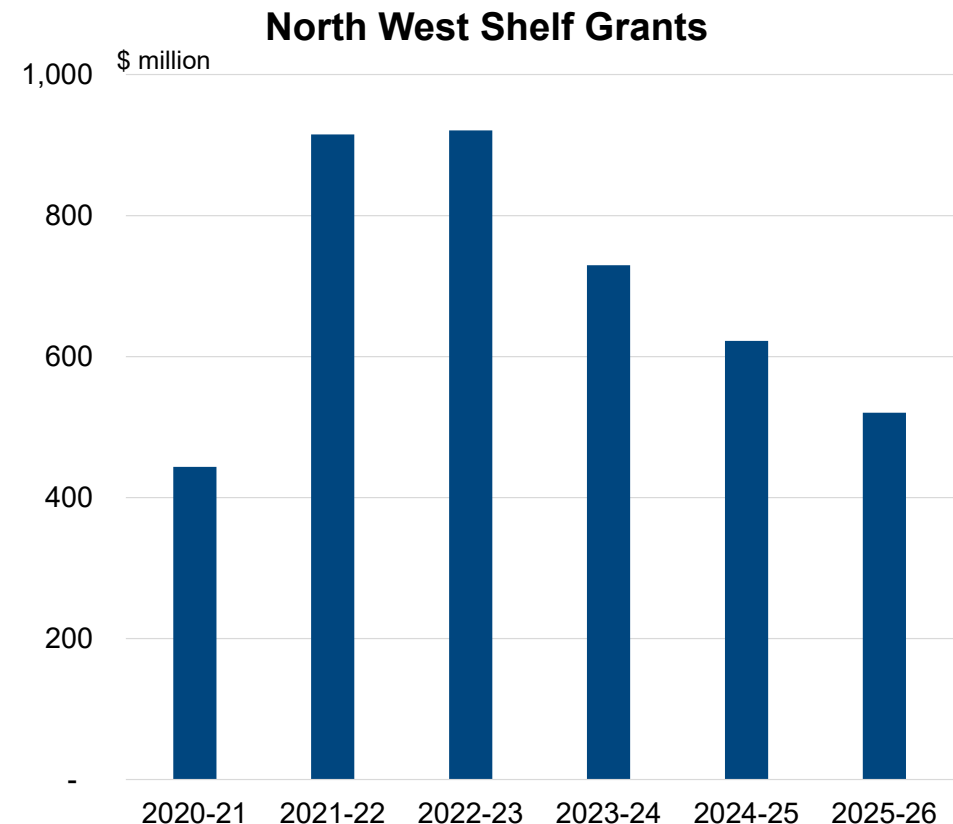
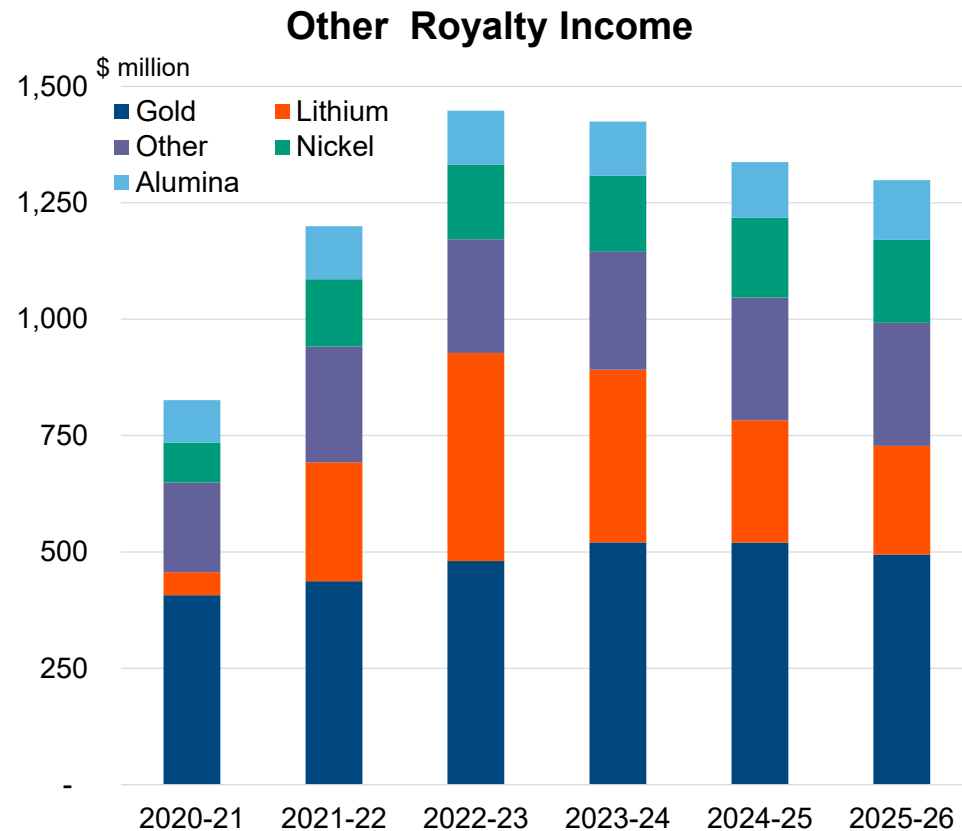
Source: Argus



Source: Cwllth Treasury, DISER, CBA, Consensus Economics, Treasury

Other Commodities and North West Shelf Grants

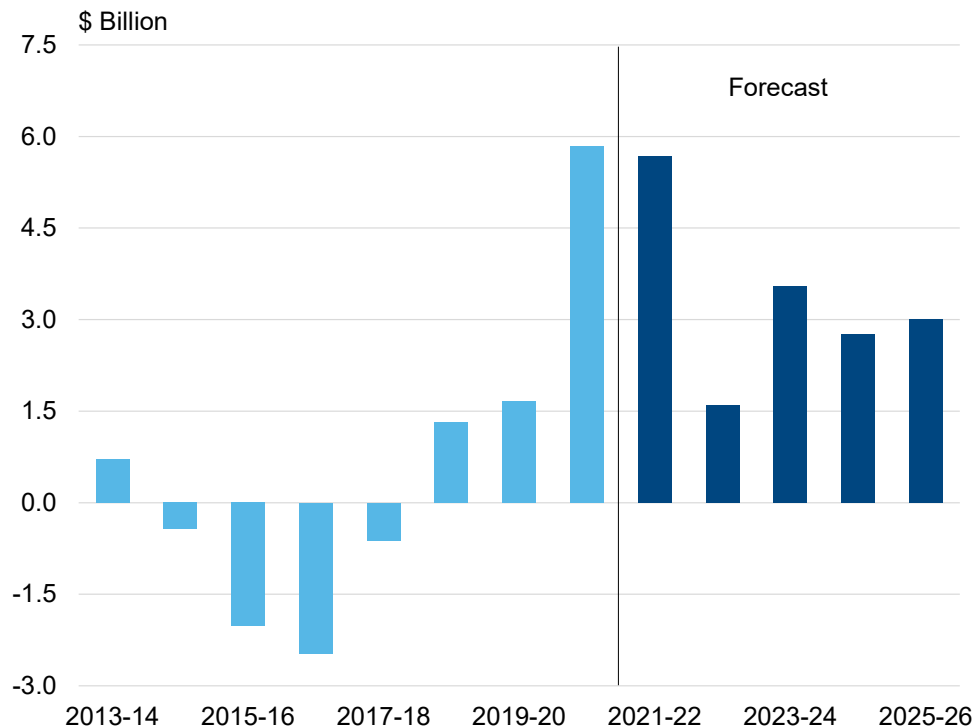
- ▶ Royalty income from other commodities (excl iron ore) is forecast to rise in 2022-23 with higher lithium royalties but fall thereafter as lithium prices normalise with rising supply
- ▶ North West Shelf Grants are forecast to decline with lower assumed prices and as less gas is sourced from areas covered by the revenue sharing arrangements



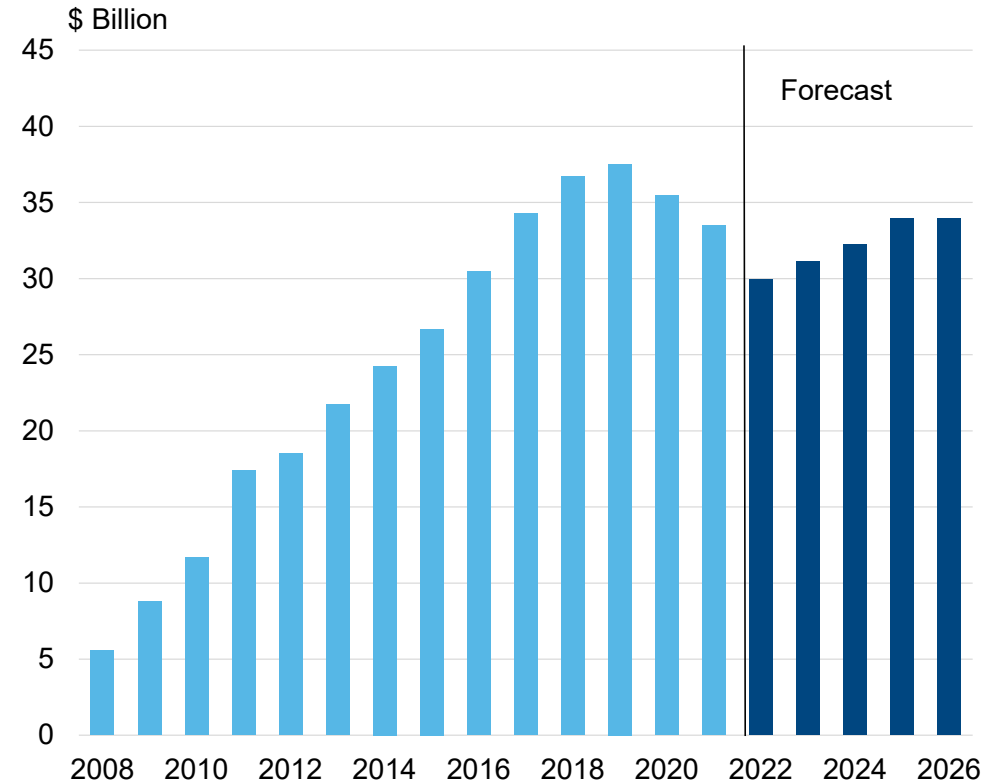
Fiscal outlook

Strong economic growth and elevated commodity prices have significantly boosted the operating surplus, with net debt to fall for third consecutive year in 2022

GENERAL GOVERNMENT OPERATING BALANCE



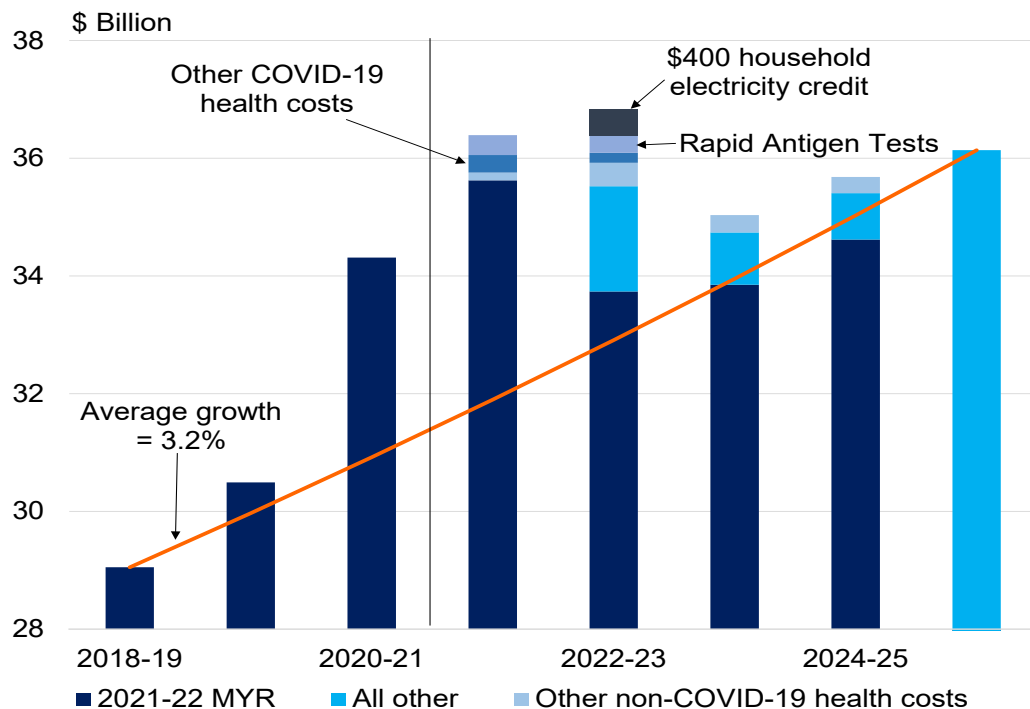
TOTAL PUBLIC SECTOR NET DEBT AT 30 JUNE



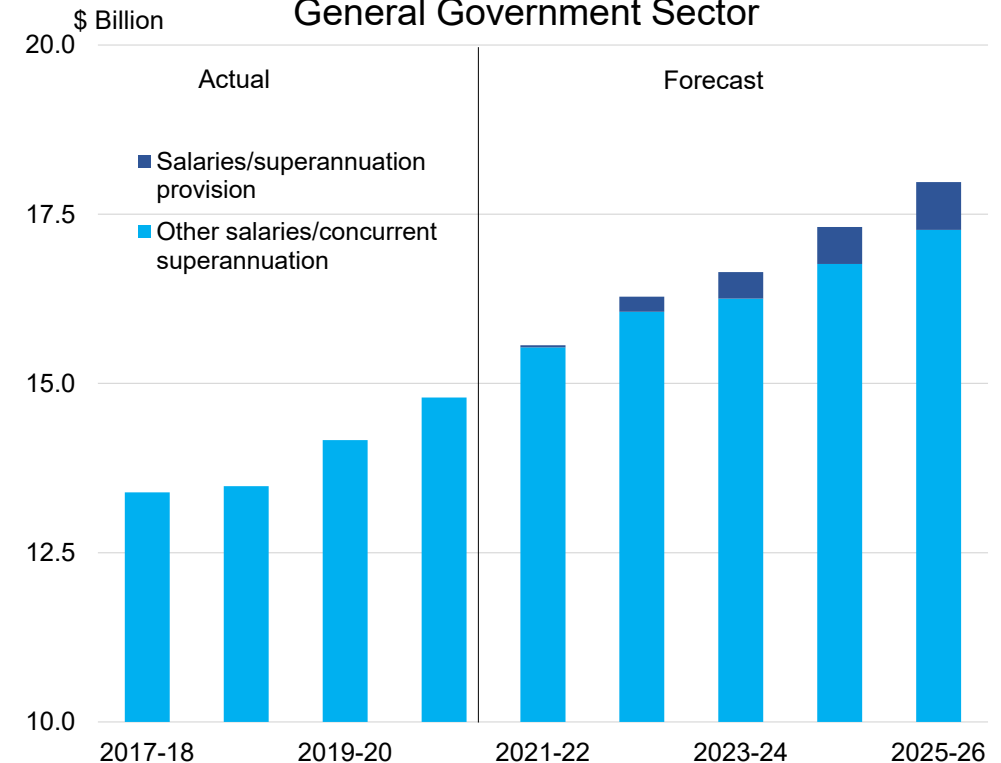
General Government Expenditures

- ▶ Recurrent expenditure up \$2.5 billion (or 7.3%) over 2021-22 to 2022-23 mainly in response to COVID-19, before \$700 million expected decline to 2025-26
- ▶ Salaries and superannuation represent around 45% to 50% of general government expenses. \$1.9 billion provisioned across 2021-22 to 2025-26 for new wages policy announced in the MYR

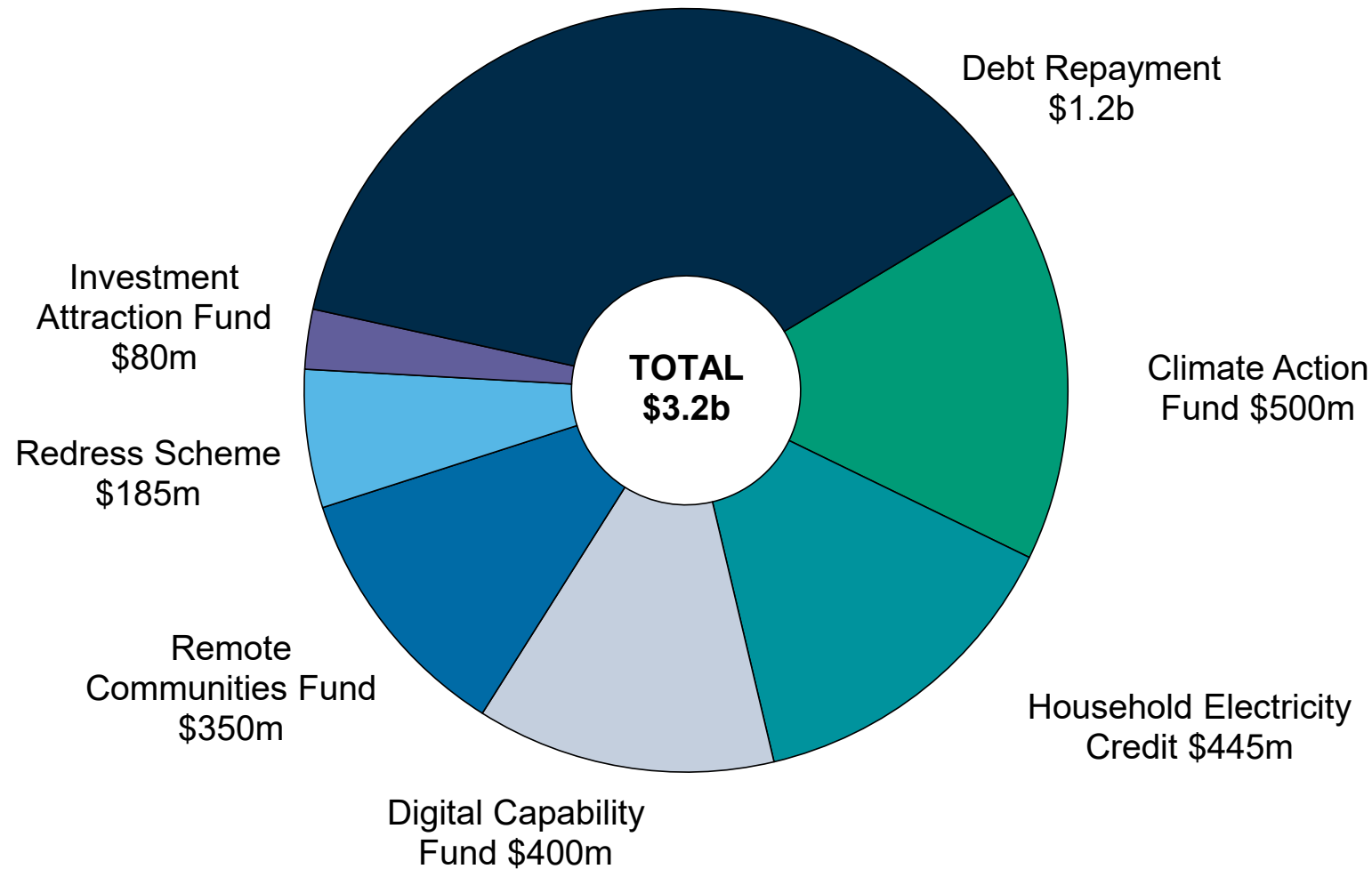
Recurrent Expenditure
General Government Sector



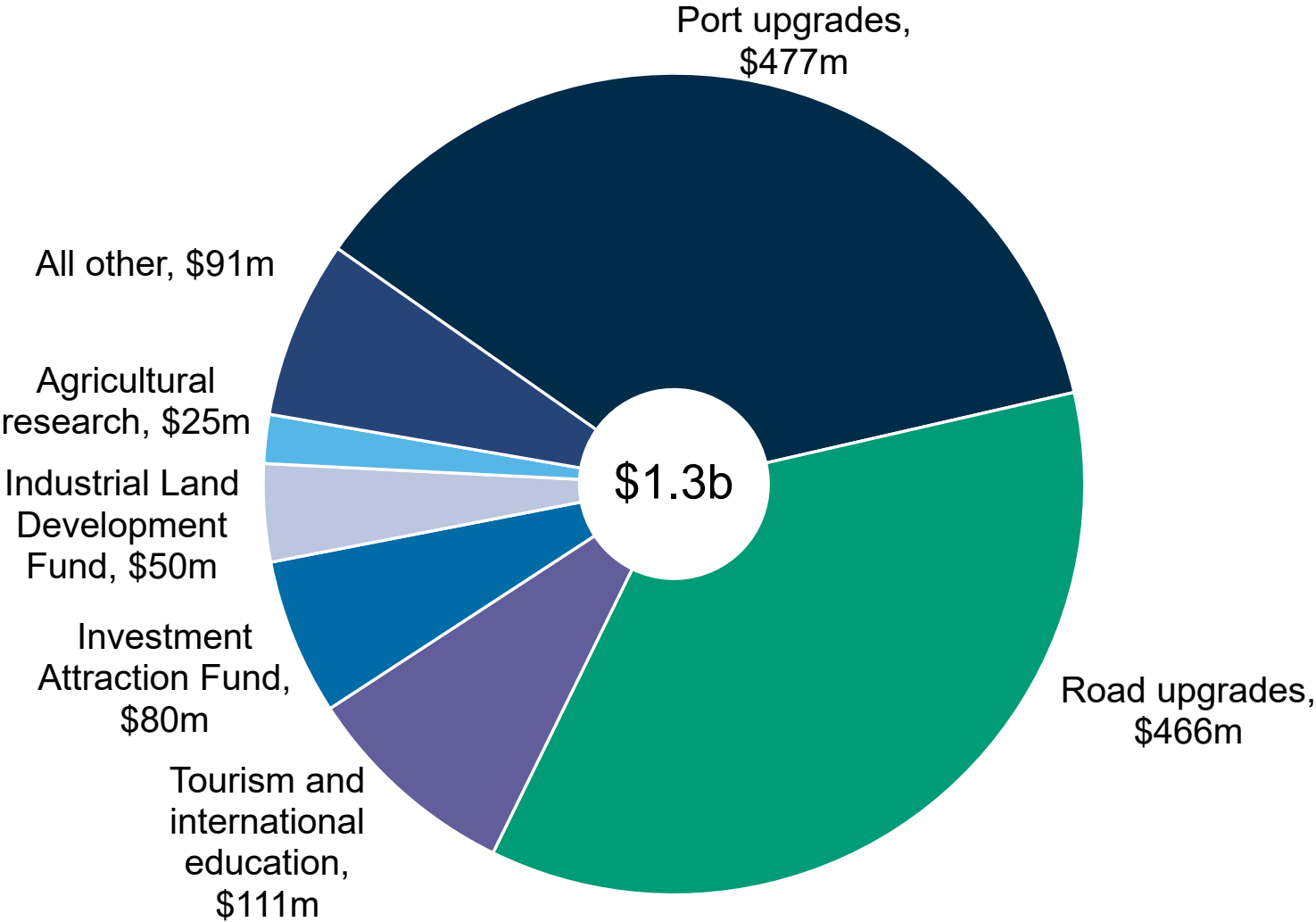
Salaries and Superannuation
General Government Sector



Allocation of higher than expected 2021-22 operating surplus (up \$3.2b since MYR)

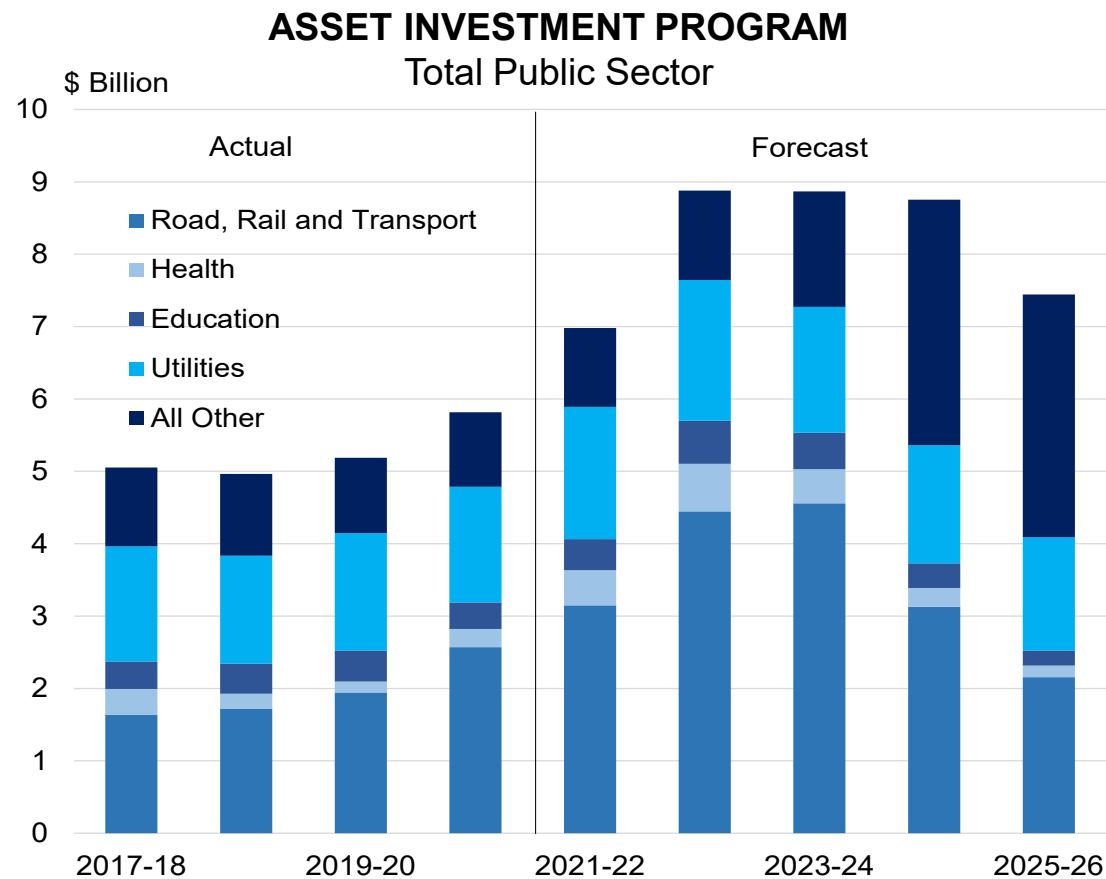


Budget initiatives to help diversify the economy



Infrastructure investment

- ▶ Record \$33.9b investment in infrastructure over four years, with 43% allocated to road, rail and public transport projects
- ▶ Step-up in AIP represents a significant delivery challenge



Need to do things differently

Heated construction market means that the Government needs to do things differently to deliver its infrastructure program

- ▶ Four hospital sites have been selected for modular delivery of hospital wards (120 beds)
- ▶ Modular builds also being used to deliver social housing, particularly in the regions



Modular hospital ward



Modular housing

March 2022 Quarterly Financial Results Report

- ▶ Released on Friday, 27 May 2022 to provide financial results for the Western Australian public sector for the first nine months of 2021-22
- ▶ Confirms strong outcomes forecast for this year in the recent Budget

KEY FINANCIAL AGGREGATES

Western Australia

	2021-22		2020-21	
	Nine Months to 31 Mar	Estimated Outturn	Nine Months to 31 Mar	Actual
GENERAL GOVERNMENT SECTOR				
Net Operating Balance (\$m)	5,539	5,676	2,363	5,838
Revenue (\$m)	30,994	41,890	27,912	40,151
Revenue Growth (%)	11.0	4.3	15.2	24.8
Expenses (\$m)	25,455	36,214	25,549	34,313
Expense Growth (%)	-0.4	5.5	17.2	12.5
Net Debt (\$m)	18,728	19,622	22,868	22,788
TOTAL PUBLIC SECTOR				
Net Debt (\$m)	28,810	29,949	33,645	33,482
Asset Investment Program (\$m)	5,004	6,980	3,604	5,816
Cash Surplus/Deficit (\$m)	4,583	3,811	2,299	2,454

Conclusion

- ▶ WA in a strong economic and fiscal position
- ▶ However, strong demand and supply constraints are creating cost pressures and delivery challenges
 - ▷ need to be innovative in how we tackle these challenges
- ▶ Heightened global uncertainty and risks
- ▶ Need to mitigate these risks by:
 - ▷ budgeting conservatively
 - ▷ managing expenditure growth
 - ▷ taking steps to diversify the economy



Office of the Auditor General Western Australia

2022 Annual Financial Audits

Grant Robinson
Assistant Auditor General
Financial Audit

Serving the Public Interest

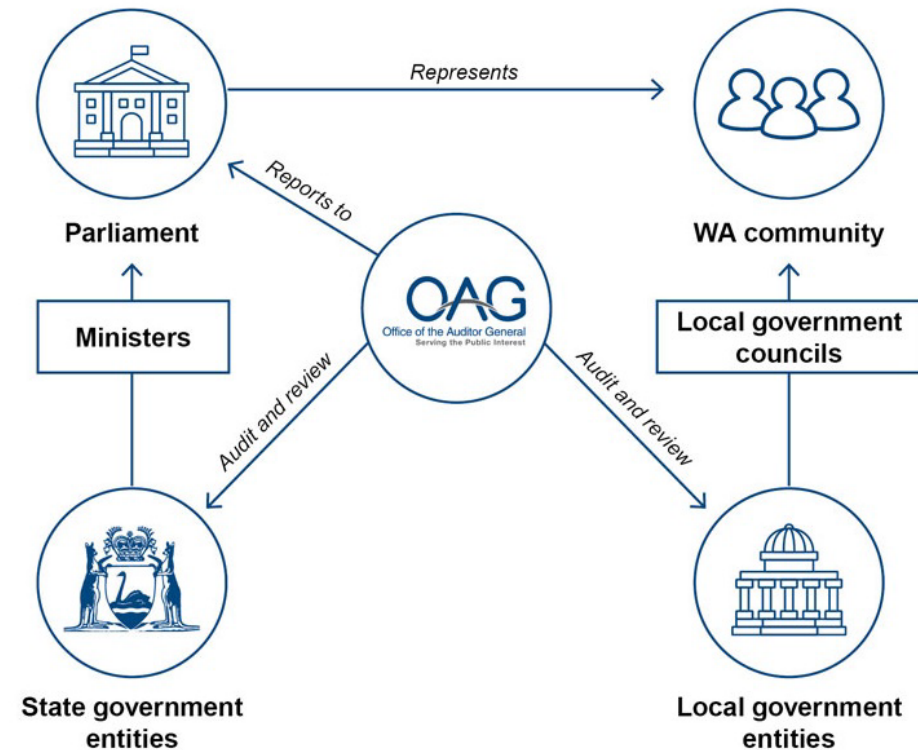


Agenda

- Role of the Auditor General
- Client survey results for 2021
- Summary of the Audit results for this year
- OAG Focus Areas
- Key focus for CFO's
- Best Practice
- Getting ready for a financial audit
- Best practice criteria
- Compliance and better practice guides
- Recent audits completed

Role of the Auditor General

- Independent and impartial
- Historic and evolving
- Provide information to Parliament
- Public sector accountability
- Serving the public interest



Our audit approach

Key principles that guide our audit work:

- approached in a fair and constructive way
- conducted and reported in an impartial manner
- matters of significance arising from audits are reported to Parliament
- our auditors demonstrate the highest standards of ethical and personal behaviour
- conducted in accordance with auditing standards

What we *don't* do

- An audit is not a “guarantee”
- Don’t assess policy
- Don’t look for fraud or other criminal matters
- Don’t investigate complaints about individuals



Audit program

Messaging to the sector

- Core business
- Consequential thinking
- Consider all risks
- Delays in access to key people, systems, information may delay audit opinion
- OAG Resourcing constraints



Types of audits

- Annual financial audits
- Performance audits
- Focus area audits
- Information systems audits
- Forensic audits
- Opinions on ministerial notifications



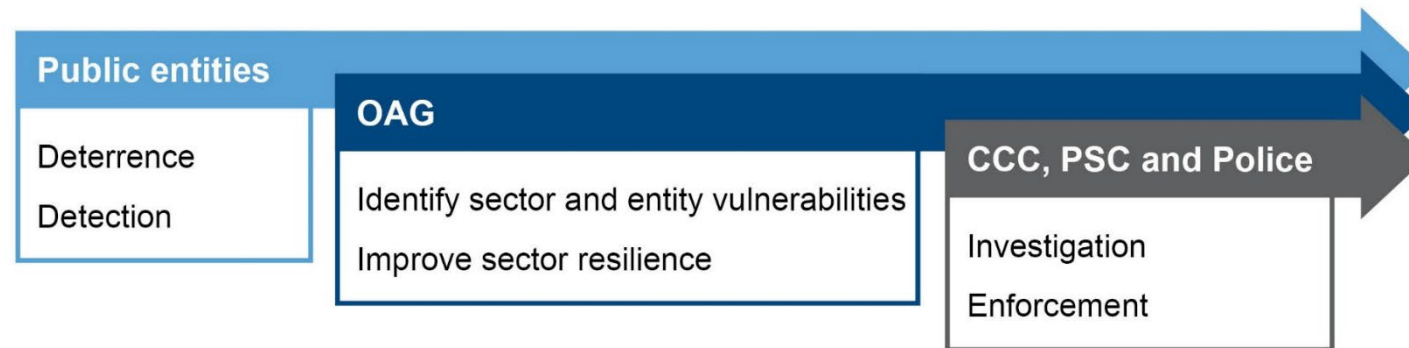
Performance audits

- Inform Parliament and the public on the effectiveness and efficiency of public sector programs and activities
- Key findings and recommendations



Forensic audit function

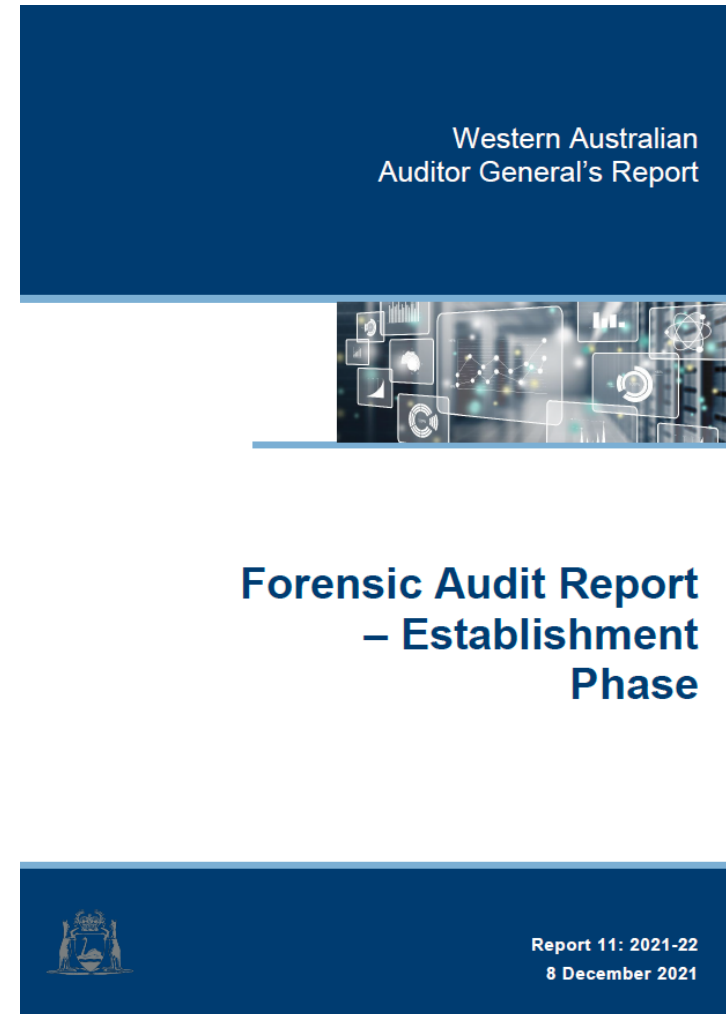
- March 2020 – established a Forensic Audit unit
- Public sector fraud responsibilities remain unchanged



- Purpose is to improve resilience to fraud and corruption across the WA public sector by conducting targeted, risk based, forensic audits in State government entities

Forensic audit function

- A forensic audit does not mean suspicion of fraud or corruption exists
- Forensic audits are determined on an assessment of risk and not by request
- Reasonable suspicions of fraud and corruption are referred to CCC
- Further information – Establishment Phase report
- Better Practice Guide



Client survey results 2020-21 - June

Audit process
80%



Audit value
86%



Audit reporting
process 78%



Performance indicator
value 84%



IS audit value 79%



Client survey results 2021 - December

Audit process
89%



Audit value
89%



Audit reporting
process 78%



Performance indicator
value 78%



IS audit value 67%



Your feedback

- Auditor continuity is important to you
 - *“Audit communications were significantly improved from the prior year, with the audit team also having a better understanding due to continuity on the engagement.”*
 - *“Suggest the audit team to review previous years audit report to develop and maintain adequate knowledge and understanding about the organisation.”*
 - *“The consistency of staff provided for the Financial audit over the last few years has meant a much smoother process and more value-added as they are not learning on the fly.”*
 - *“The audit ran very smoothly due to good continuity of staff.”*
- Timeliness can be improved
 - *Please give as much notice as possible for the PBC, allowing ample time to complete and collate the information.*
- Increased communications are valued
 - *“The OAG audit team, Directors and Auditor General are approachable to engage with.”*

Learnings



Training



Onsite auditing



Value of OAG audits



**Not obligated to
make changes**

Summary of audit results for the 2021 year

147

State entities

17

Entities qualified

31

Qualifications

427

Financial and control findings
(430 prior year)

28%

Financial control issues unresolved
(26% prior year)

85

Significant

277

Moderate

65

Minor

Recommendations

1. All entities should ensure they maintain the integrity of their financial control environment by:
 - periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures and communicating these to relevant staff
 - conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments
 - regularly monitoring compliance with relevant legislation
 - promptly addressing control weaknesses brought to their attention by OAG audits.

2. Entities should periodically review their KPIs to ensure that:
 - they are calculated from reliable and complete data
 - they remain relevant, appropriate and fairly present performance against realistic targets
 - the KPI instructions are periodically updated and approved so that KPIs are consistently reported and comparable

 - variance between actual and target explanations are appropriately transparent and meaningful.

OAG Focus Areas

- Continued focus on the control environment including:
 - Legislative compliance (applicable state financial and other relevant legislation and the compliance culture of the agency)
 - Impact of any significant information systems or other controls weaknesses on the audit report

Key focus for CFOs

- Be proactive with previous year's findings – use Tool 7
- When qualified, this raises your risk profile – use Tool 1
- Audit preparedness
 - Review findings from previous year
 - Identify changes in accounting standards
 - Review existing accounting policies and methodologies
 - Supporting documentation (audit file)
 - Ensure adequate staff will be available
 - Develop a timeline and assign responsibilities
- OAG engagement

Best practice criteria

7 criteria

- Timeliness
- Quality of financial statements, KPIs and notes
- Quality of working papers
- Resolution of accounting standards / presentation issues
- Key staff
- Number and significance of controls / management letter issues identified
- Clear audit opinion

Compliance and better practice

We recommend aiming for better practice, not just minimum compliance

The screenshot shows the OAG website navigation menu. The 'Reports and publications' dropdown menu is open, and the 'Better practice guidance' option is circled in red. Below the menu, the 'Better practice guidance' page is visible, featuring a list of reports and a table of recent publications.

Topic	Report	Date
Cloud application (Software as a service arrangement)	Information Systems Audit Report 2019	15 May 2019

Appendix 1: Better practice principles

The following table shows control principles on which our audit focused. They cover a number of key supplier master file practices and controls, and are not intended as an exhaustive list.

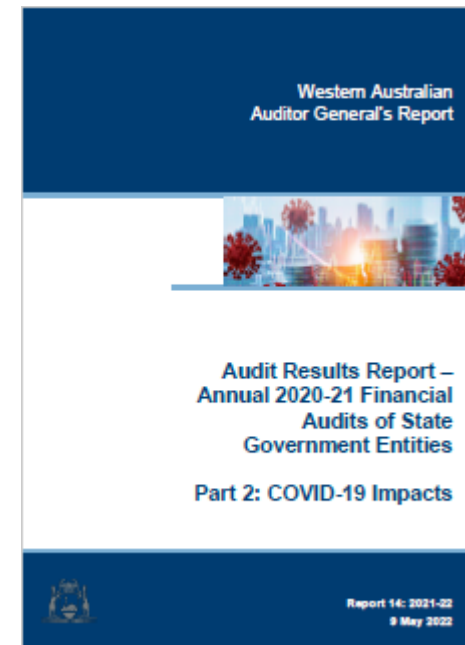
Supplier master files framework	Focus area	What we expected to see:
Creation / amendments of master files	Policies and procedures	<ul style="list-style-type: none"> Policies and procedures include comprehensive guidance for employees to effectively manage supplier master files. Policies and procedures are regularly reviewed and updated.
	Access to master files	<ul style="list-style-type: none"> Entities regularly review employees' access to create or amend supplier master files to reduce the risk of unauthorised changes.
	Creation	<ul style="list-style-type: none"> Staff consistently apply naming conventions for supplier records, to avoid suppliers being registered under multiple names. All key information is input at the time of creating a new supplier record.
	Amendments	<ul style="list-style-type: none"> Documentary evidence is maintained to support the changes in master files. Employee validates changes to supplier details with the supplier (i.e. via phone or formally by writing).
Management of master files	Segregation of duties	<ul style="list-style-type: none"> Additions or amendments to supplier master files are independently reviewed. Appropriate segregation of duties is established between employees amending the master files and employees approving payments to suppliers.
	Recordkeeping	<ul style="list-style-type: none"> Documentation is retained for all additions and amendments to supplier master files including reasons for amending the supplier details.
	Conflict of interest	<ul style="list-style-type: none"> Employees declare any actual, potential or perceived conflict of interest. Declarations are retained, assessed and conflicts of interest are appropriately addressed. Employees with conflicts of interest abstain from the procurement process or managing records of the suppliers they are related to.
Management of master files	Review	<ul style="list-style-type: none"> Management undertakes formal and periodic review of master files to identify incomplete, incorrect, duplicate or redundant supplier records. Weaknesses identified are communicated to the relevant stakeholders and remediating actions are promptly undertaken. The outcome of the review is presented to the audit committee.

Audits recently completed

2020-21 Financial Audits of State Govt Entities – Part 2: COVID-19 impacts

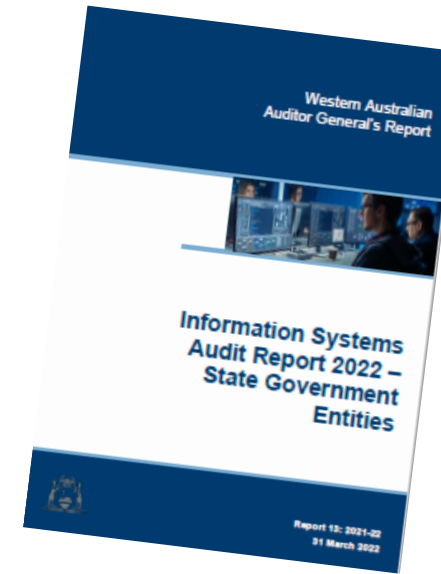
Audit findings and observations were reported for selected entities, under the following headings:

- Impact on the community and disruption of services
- Entities' expenses for directly managing the impact of COVID-19
- Stimulus funding distributed or initiatives administered by entities
- Hotel quarantine



Information Systems Audit Report 2022 – State Government Entities

- General computer controls audit conducted at 54 State government entities
- 36 entities complete capability maturity self-assessments
- Focused on 6 categories:
 - Information security
 - Business Continuity
 - Management of IT risks
 - IT operations
 - Change control
 - Physical security
- 526 GCC findings reported across the 54 audited entities
- 6 entities control weaknesses were so pervasive and significant that their financial audit controls opinions were qualified



HAPPY EOFY!!

Copies of the Auditor General's
Reports and Better Practice Guides
can be found at:

www.audit.wa.gov.au

We also welcome feedback via our annual
survey or at any time via

info@audit.wa.gov.au



Government of **Western Australia**
Department of **Treasury**

Asset Investment Program – Managing Cost Pressures

Neil Hunter

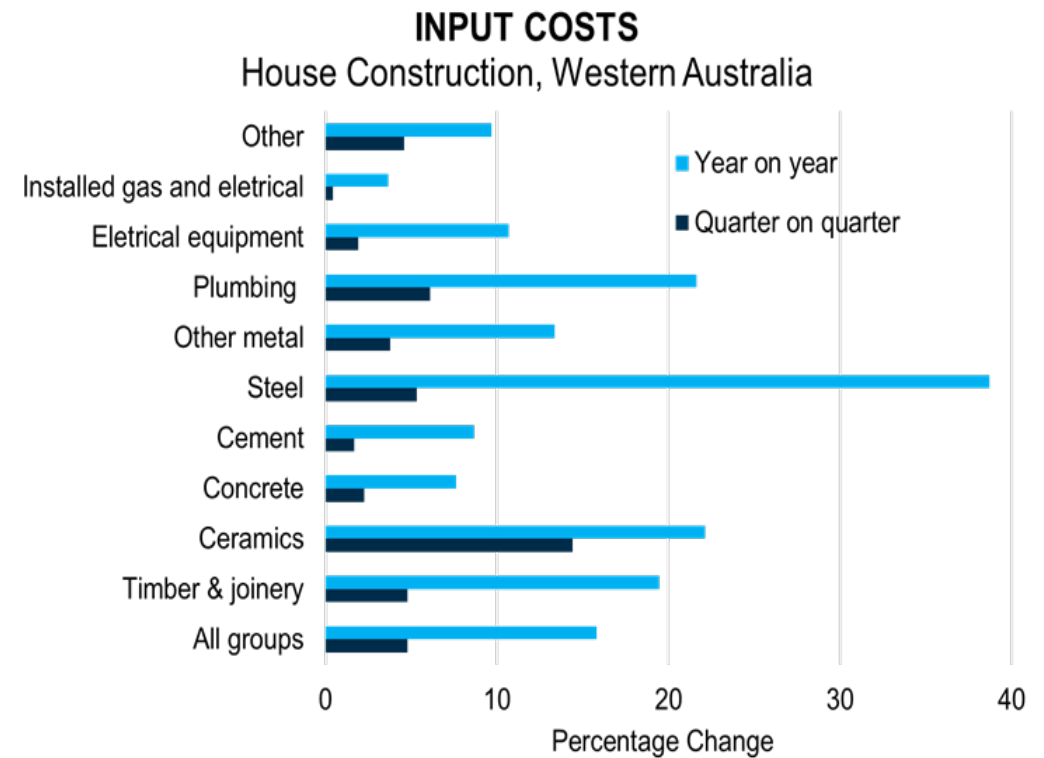
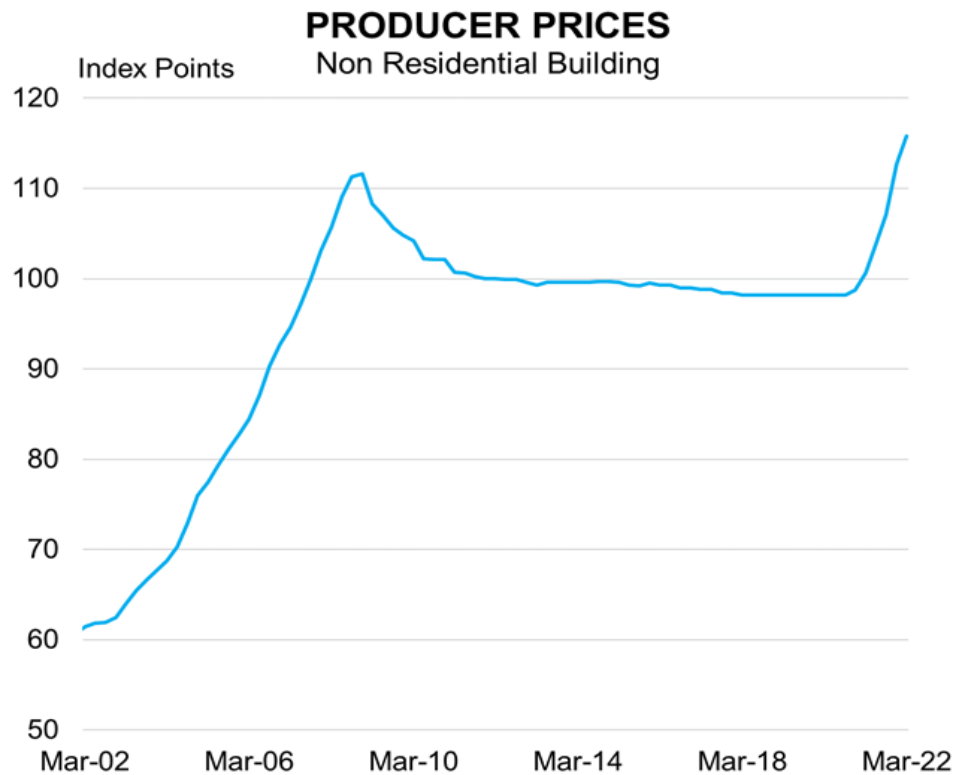
Director, Infrastructure Strategy and Policy

Acknowledgement of Country

The Government of Western Australia acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures; and to Elders both past and present.

Construction Cost Pressures

- Both private and public construction projects are being impacted by global supply chain pressures, rising input costs, including steel and timber, and competition for trades.



Responding to the Infrastructure Delivery Challenge

- ▶ Additional funding to address construction market cost pressures
 - ▷ \$1.4 billion additional investment for projects in delivery, \$832 million funded by the Commonwealth.
 - ▷ \$350 million provision for genuine cost escalation on approved projects, including relief for head contractors caught out with fixed-price contracts on government projects
- ▶ More effective infrastructure governance, planning, decision-making and delivery
 - ▷ establishment of the Major Projects Expenditure Review Sub-committee
 - ▷ creation of a Major Projects Unit and Office of Major Transport Infrastructure Delivery to increase capacity and capability in delivery of major projects
 - ▷ greater use of innovative procurement approaches such as modular hospitals and modular social housing
 - ▷ agencies to confirm that Finance has validated costings and schedules for projects before a proposal to submitted to ERC for consideration
 - ▷ consistent approach to managing cost escalation.

Cost Escalation Provision

- ▶ \$350 million global provision as a funding source for legitimate cost pressures that have arisen due to capacity constraints in the construction market.
- ▶ Treasurer's Delegated Authority process utilised to provide timely approval.
- ▶ Does not exempt agencies from ERC's requirements to fully explore all other options for managing cost pressures before seeking additional funding.
- ▶ Provides for additional funding for cost escalation that is over and above the amounts provided for in cost plans contained in business cases and project definition plans.
- ▶ Allocated on a project-by-project basis, and evaluated against actual movements in the relevant cost indices.
- ▶ Not intended to be utilised to provide funding for increases to the scope of projects.
- ▶ Subject to confirmation that the project still represents value for money and a formal value management exercise being undertaken if the tender outcome is more than 20% above the pre tender estimate.

Cost Escalation Provision

▶ Projects in planning phase:

- ▷ escalation referenced against movements in relevant cost index;
 - identify drivers of cost increase;
- ▷ utilise contingencies and minimise proportional increases in ancillary costs;
- ▷ scope changes to be met from contingency with additional funding only considered in exceptional circumstances.

▶ Projects in tender / contract award stage:

- ▷ Tender Review Committee to confirm project is still value for money;
- ▷ value management exercise to reduce scope and cost when increase is more than 20%;
- ▷ negotiate with the preferred tenderer(s) to identify cost savings;

Establishment of MPERSC

MPERSC was established by Cabinet on 8 June 2021, and reports directly to the Expenditure Review Committee (ERC). Chaired by the Premier.

▶ MPERSC oversees nearly 40 major projects and programs to advise ERC on:

- ▷ Tracking development of business cases / Project Definition Plans
- ▷ Policy guidance on financial impacts
- ▷ Cross-government policy impacts
- ▷ Delivery issues

▶ Key Projects and Programs

- ▷ METRONET
- ▷ Westport
- ▷ Women and Babies' Hospital
- ▷ Bunbury Hospital
- ▷ Screen Production Facility
- ▷ AIP Program Delivery

Summary

- ▶ Funding for legitimate cost escalation is available but not a free for all.
- ▶ Confirm costings and schedules for projects with Finance before a proposal is submitted to ERC for consideration.
 - ▷ **Does not** apply to Transport agencies, Public Non-Financial Corporations, or social housing projects by Department of Communities.
- ▶ Engage with Treasury and Finance early on new investment proposals.
- ▶ Engage with Treasury and Finance early on cost escalation pressures.
- ▶ Ensure tender schedule planning is up to date and realistic:
 - ▷ Consult with Finance and IDU on timing of tenders for non-residential buildings
 - ▷ For regional projects, consult with other agencies on their tender schedules

Thanks

Any questions?