



Australian Government

Department of Broadband,
Communications and the Digital Economy

Review of Financial
Transactions

Quarter 1 & 2

May 2009

FINAL Report

KPMG Canberra

	Planned	Actual
Entrance Interview	February 2009	February 2009
Fieldwork	February 2009	April 2009
Draft Report	March 2009	May 2009
Management Comments	March 2009	May 2009
Final Report	March 2009	May 2009

Audit Sponsor: Simon Ash, CFO



Disclaimer

Inherent Limitations

This report has been prepared as outlined in the methodology of this report. The procedures outlined in the methodology constitute neither an audit nor a comprehensive review of operations.

Due to the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they are not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure.

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KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

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1 Executive Summary

1.1 Background

The Department of Broadband, Communications and the Digital Economy (DBCDE) was established to provide the Australian Government with economic, legal and social policy advice and support on developing dynamic and world-class communications, ICT, broadcasting and digital content.

As part of the annual internal audit plan, the Audit, Risk and Evaluation Committee requested KPMG to undertake a quarterly internal audit of a sample of the Department's financial transactions to ensure appropriate approval processes were followed and relevant documentation is being maintained on official files held by the DAUs. This report encompasses findings from a review of a sample of transactions processed during quarters 1 and 2 for the 2008/09 Financial Year.

1.2 Summary of Findings and Recommendations

1.2.1 Positive Observations

FMA Compliance

From the sample of transactions tested, Internal Audit did not identify any instances where a Reg 9 or Reg 10 approval was not appropriately documented when required, and as such no breaches of Regulation 12 of the *Financial Management and Accountability Act 1997* (FMA Act) were noted.

Transaction Accuracy

In performing testing over DBCDE transaction data, KPMG specifically targeted suspicious and possible duplicate transactions, all transactions tested under this targeted sampling proved to be a legitimate transaction.

Process Documentation

Internal Audit observed that the procedures in place within the Department for processing payments are well designed and documented. When applied appropriately these procedures promote efficiency, effectiveness and legislative compliance. (See process maps, Appendix 1, page 11)

1.2.2 Areas Requiring Remedial Action

Nature of Expenditure (BIR)

Internal Audit found in a number of instances that the descriptions attributed to a transaction did not support the true nature of the expense. This opens up the possibility of the nature of the expense being misconstrued by parties external to the Department, thus increasing the risk of transaction data embarrassing the Department.

Minor Observations (CR3)

Internal Audit noted a number of minor procedural breaches as follows:

- failure to pay suppliers within a 30 day time frame;
- failure to stamp invoices on the date received; and
- failure to provide evidence to Finance and Budgets area (FAB) as to whether goods have been received.

1.3 Summary of Advice

This engagement was undertaken to consider the procedures in place for processing payment transactions across the agency and to ensure that documentation is maintained to provide evidence of appropriate processing and approval of transactions against FMA Act and internal procedures. Set out below is our overall advice covering these areas.

In conducting our testing of a sample of financial transactions, Internal Audit identified no instances of failure to comply with Regulation 9, 10 and 13 of the FMA Act. In addition, the documentation of procedures in place around financial transactions is of a standard that provides clear and appropriate advice for ensuring FMA Act compliance.

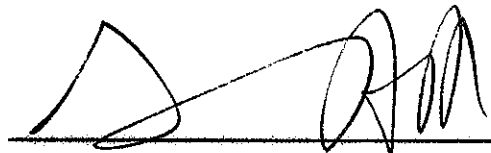
In terms of the compliance with internal procedures, a number of minor procedural breaches were observed. A failure to follow procedures can expose the agency to an increased risk of FMA Act non-compliance, however it should be noted that this was not the case in the breaches noted during this review.

In addition to the above finding, Internal Audit identified a small number of expenses within the transaction data whose descriptions could be improved to better outline the nature/reason for the expense. These transactions are generally around expenses that could be misconstrued as a personal expense by an external party to the Department.

For the above findings, Internal Audit has recommended that a memorandum be issued to DAUs re-affirming procedural compliance, and providing guidance on the use of adequate expense descriptions which support FMA Act directives for the use of public monies.



Don Cross
Partner
KPMG



Simon Ash
Chief Financial Officer
**Department of Broadband,
Communications and the Digital
Economy**

2 Objective and Scope

Objective

The objective of this audit was to consider the procedures in place for processing payment transactions across the agency and to ensure that documentation was maintained to provide evidence of the appropriate processing and approval of transactions. This engagement was to take into account obligations, under the FMA Act, those required by the Department of Finance and Deregulation and the Department's CEIs and Practical Guides.

Scope

This engagement is a quarterly conformance audit that assessed the transaction processing control environment, and transaction documenting activities. In particular, the engagement assessed the process for documenting transactions, focussing specifically on compliance with:

- the FMA Act (including Reg 10);
- delegations;
- approval processes; and
- documentation procedures.

Transactions selected incorporated a sample from both Departmental and Administered expenses and included Accounts Payable transactions, petty cash and credit card payments.

Method

The following outlines the testing undertaken by internal audit during the engagement:

Familiarisation

- Liaised with key staff involved in financial transaction processing;
- Examined relevant CEIs and Practical Guides and other documentation that is applicable to the Department; and
- Obtained transaction lists for the relevant quarter/s.

Fieldwork and Testing

- Identified payments that deviated from defined 'norm' parameters (e.g. data profiling, duplicates, ratios and sequence gaps); and
- Used Computer Assisted Auditing Techniques (CAATs) to select a sample of items and conduct testing of transactions to determine the level of compliance with relevant requirements.

Reporting

- Significant matters were discussed with the engagement sponsors.
- A verbal briefing on matters identified during the audit to management at the completion of the fieldwork.
- Issued a draft report with recommendations on improvements to controls, procedures and process. This report was circulated to the engagement sponsors prior to exit interview.
- Conducted an exit interview with the engagement sponsors.
- Issued a final report incorporating management comments.
- Issued a final report considered and endorsed by the audit committee.

Sampling

Internal Audit used Computer Assisted Auditing Techniques (CAATs) to perform targeted sampling over Financial Transactions data, in order to select the most effective sample. The samples were selected using the following targeted characteristics:

- High value transactions;
- Potential duplicate transactions;
- Transactions close to delegation limits;
- Transactions with abnormal characteristics/descriptions; and
- A number of transactions selected at random.

The following table details the sample selected:

Transaction Type	Population	# Selected	\$ Value Pop	\$ Value tested	% Tested (\$ value)
Accounts Payable - Departmental	3,768	50	\$24,791,426	\$4,889,036.18	19.72%
Accounts Payable - Administered	926	50	\$86,370,042	\$46,118,914,.29	53.34%
Credit Card	1,312	50	\$562,027.97	\$57,025.16	10.15%
Petty Cash	144	20	\$7,698.70	\$1,919.69	24.94%
Total	6150	120	\$111,731,194.70	\$51,066,895.32	

3 Findings and Recommendations

3.1 Nature of expenditure (BIR)

Observation

Internal Audit noted four Departmental expenses that while appropriately approved under FMA legislation and internal procedures, had a description that could be misconstrued as a personal expense by parties external to DBCDE.

Implication / Risk

While these transactions were appropriately processed and approved, the description of the expense had the potential to be misconstrued as a personal expense by a party external to the Department. This increases the risk of reputation damage to the Department.

Recommendation

Internal Audit recommends that DBCDE issue a memorandum to DAUs to ensure expense descriptions support FMA Act directives for the use of public monies and that documentation accurately reflects the expense nature, including any relevant background or reasoning of the expense.

Management Comment

Agreed. DAU Managers were reminded at the DAU/Finance Meeting on 19 May 2009, of the requirement to ensure that appropriate expense descriptions are provided on payments documentation, and that these descriptions accurately reflect the nature of the expense. A follow-up reminder email was forwarded to DAUs on 25 May 2009.

3.2 Minor Observations (CR3)

Observation

Internal Audit made the following observations:

- 1) Five instances where payments to suppliers were made outside the 30 day account payment guidelines as mandated in Section 2.8.1 of Practical Guide 2.3 – Payment of Accounts.
- 2) 17 instances where the invoice was not stamped on the date received as required by 3.1.1 of Practical Guide 2.3 – Payment of Accounts.
- 3) 12 instances where there was no evidence from the DAU/Business area indicating that the goods had been received, as required by 4.1 and 4.2 of Practical Guide 2.3 – Payment of Accounts.

Implication / Risk

The above findings are minor examples of procedural breakdown, and do not pose significant risk to the Department's compliance with the FMA Act. However, adherence to the Practical Guides serves as the key control for FMA Act compliance, and as such the summation of the breaches can be viewed as increasing the risk of FMA Act not compliance.

Recommendation

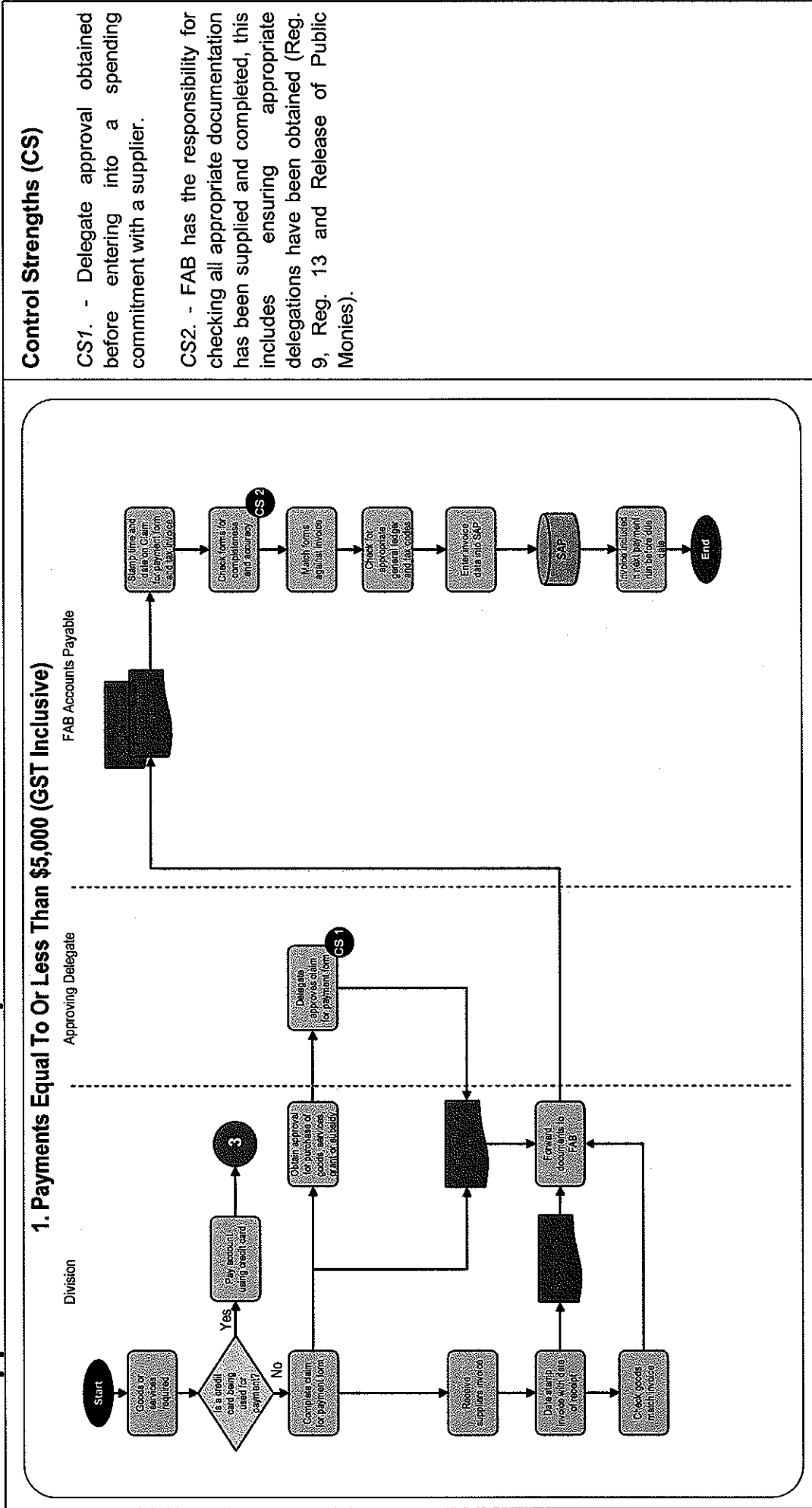
Internal Audit recommends the Department remind DAUs of their responsibility to follow Practical Guides when processing transactions.

Management Comment

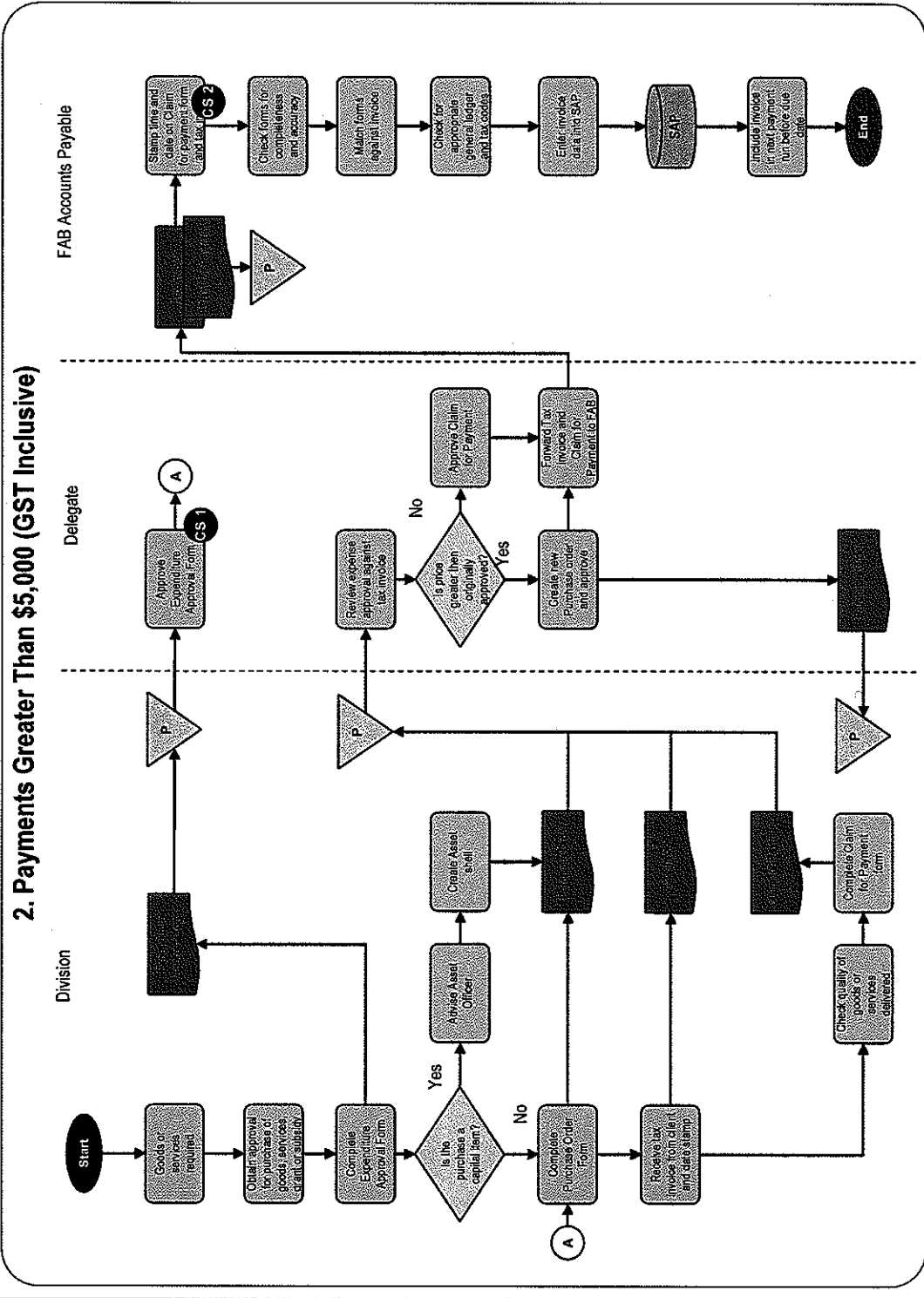
Agreed. Late payments are reported monthly to the Secretary, Executive Management Group and Divisional Management. The Department has been active in ensuring accountability by line areas, thereby reducing the occurrence of late payments.

In response to the recommendation DAU Managers were reminded of their obligations under the Practical Guides in relation to date stamping of incoming invoices and noting the date that the goods and services were received on the invoice and 'Claim for Payment' form at the 19 May 2009 DAU/Finance meeting.

4 Appendix 1 – Process Maps



2. Payments Greater Than \$5,000 (GST Inclusive)



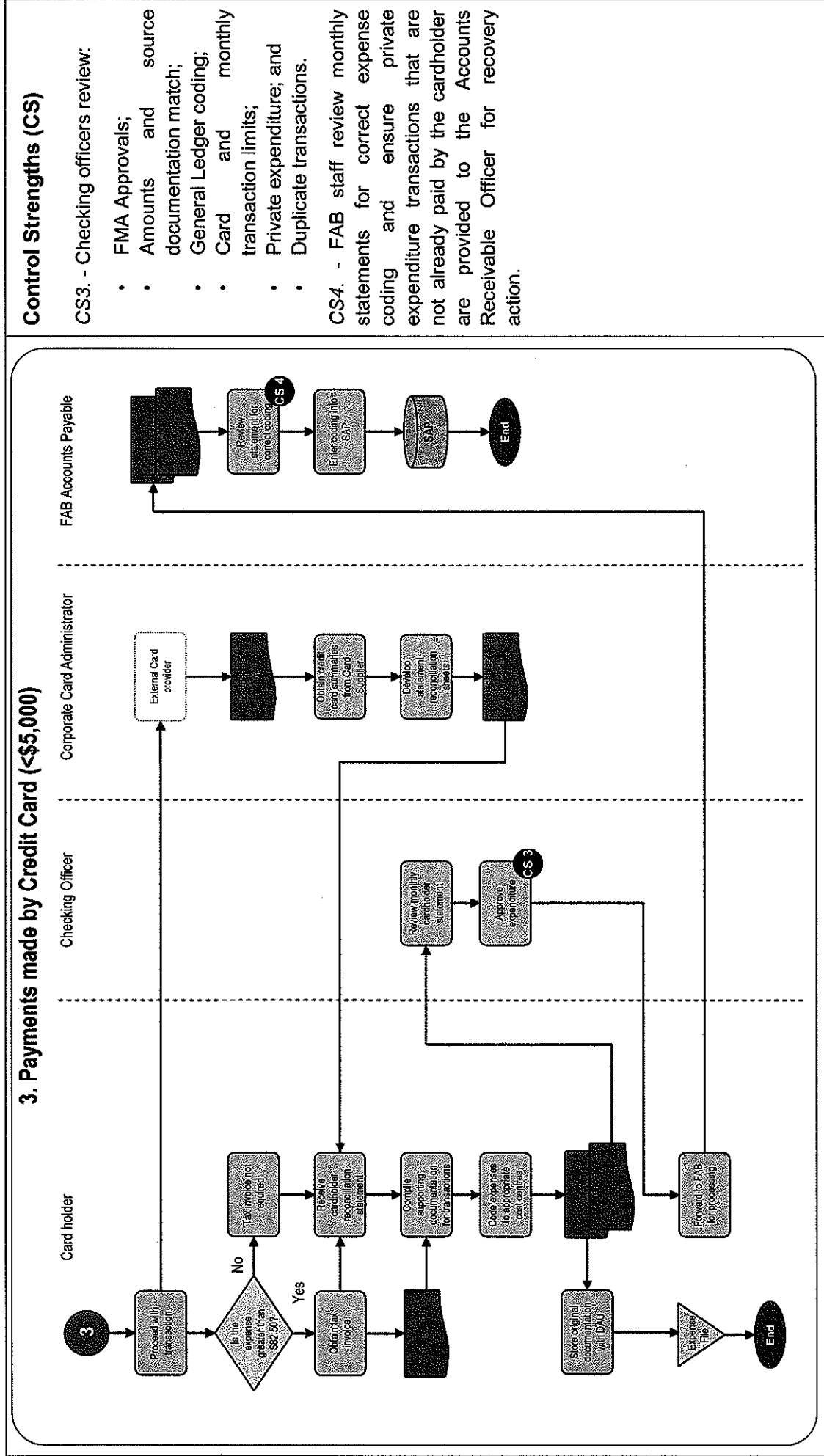
Control Strengths (CS)

CS1. - Delegate approval sort before entering into a spending commitment with a supplier.

CS2. - FAB has the responsibility for checking all appropriate documentation has been supplied and completed, this includes ensuring appropriate delegations have been obtained (Reg. 9, Reg. 13 and Release of Public Monies).

P -- Designates Paper File.

3. Payments made by Credit Card (<\$5,000)



Control Strengths (CS)

CS3. - Checking officers review:

- FMA Approvals;
- Amounts and source documentation match;
- General Ledger coding;
- Card and monthly transaction limits;
- Private expenditure; and
- Duplicate transactions.

CS4. - FAB staff review monthly statements for correct expense coding and ensure private expenditure transactions that are not already paid by the cardholder are provided to the Accounts Receivable Officer for recovery action.

5 Appendix 2 - Classification of Findings

Assigning a category to an internal audit finding is one of professional judgement. There are various factors that will be considered when an internal auditor assigns a category classification.

The purpose of assigning a classification to a finding is to communicate the importance of that finding with the Audit, Risk and Evaluation Committee, management and staff of DBCDE. This communication plays an important part in interpreting the internal auditor's opinion with respect to what priority a finding and its associated recommendation should be given.

In the table below are a number of the factors an internal auditor considers when assigning category classifications.

It is important to note that an internal auditor will assign a category classification with the best interests of the 'organisation as a whole' in mind.

Factors considered when categorising findings	CR1 Finding	CR2 Finding	CR3 Finding
<i>Priority of attention required (Who)</i>	Secretary / Deputy Secretary	Deputy Secretary	Deputy Secretary
<i>Priority of attention required (timeliness of action required)</i>	Immediate commencement of corrective action	As soon as practical within the next 3 – 6 months.	When resources permit at the discretion of the organisation.
<i>Likelihood or impact of the uncontrolled risk</i>	Catastrophic / Major The likelihood/impact of the uncontrolled business or financial risk may threaten either the operation of the Department or the effective function of a critical/significant project and/or have a severe impact on the Department's reputation and credibility.	Moderate / Minor The likelihood/impact of the uncontrolled business or financial risk would threaten the efficiency or effectiveness of an aspect of operations.	Insignificant The likelihood/ impact of the uncontrolled business or financial risk could be dealt with by routine operations.

Factors considered when categorising findings	CR1 Finding	CR2 Finding	CR3 Finding
<i>Suitability of the policies and/or procedures</i>	No policies and/or procedures exist. Policies and/or procedures are not considered appropriate to manage a significant risk or function of the organisation.	No policies and/or procedures exist. Policies and/or procedures are not considered appropriate to manage a core business risk or routine function.	Policies and/or procedures are appropriate but out of date (the effect is not considered of serious consequence).
<i>Compliance with documented procedures and policies</i>	Policies and/or procedures are not being complied with.	Policies and/or procedures are not being complied with consistently (frequency and quality). Documentation does not reflect proper compliance with procedures and policies	Infrequent instances of non-compliance with policies and procedures were identified.
<i>Breach of delegations (financial and non-financial)</i>	Any one of the following individually or in combination. Dollar values: - Large Frequency of breaches: - Regular	Any one of the following individually or in combination: Dollar values: - Medium Frequency of breaches: - Periodic	Any one of the following individually or in combination: Dollar values: - Small Frequency of breaches: - Isolated

Factors considered when categorising findings	CR1 Finding	CR2 Finding	CR3 Finding
	<p>Documentation to support exercise of delegation:</p> <ul style="list-style-type: none"> - Doesn't exist <p>What/how:</p> <ul style="list-style-type: none"> - Breach of delegation exercised by Branch Head and/or above 	<p>Documentation to support exercise of delegation:</p> <ul style="list-style-type: none"> - Not adequate <p>What/how:</p> <ul style="list-style-type: none"> - Breach of delegation by middle management 	<p>Documentation to support exercise of delegation:</p> <ul style="list-style-type: none"> - Could be improved <p>What/how:</p> <ul style="list-style-type: none"> - Breach of delegation reflecting ignorance
<i>Fraud</i>	All fraud or corrupt conduct identified is reported as CR1	N/a	N/a

BIR Business Improvement Recommendation - Arises where the internal auditor considers that the recommendation, if implemented, would result in a benefit accruing to the organisation (for example, through more efficient and/or cost effective processes, a reduction of expenditure or an increase in revenue).