



Australian Government

Department of Broadband,
Communications and the Digital Economy

Review of Financial
Transactions

Quarters 3 & 4

August 2010

Final Report

KPMG Canberra

	Planned	Actual
Entrance Interview	December 2009	December 2009
Fieldwork	July 2010	July 2010
Draft Report	July 2010	August 2010
Management Comments	August 2010	August 2010
Final Report	August 2010	August 2010

Audit Sponsor: Simon A Ash, Chief Financial Officer



Disclaimer

Inherent Limitations

This report has been prepared as outlined in the methodology of this report. The procedures outlined in the methodology constitute neither a statutory 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.

No warranty of completeness, accuracy or reliability is given by KPMG in relation to the statements and representations made by the Department of Broadband, Communications and the Digital Economy, nor the information and documentation provided by the Department, as part of the process used in preparing this report.

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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Inherent limitations of internal control structure

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to the procedures we performed operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. The procedures performed were not designed to detect all weaknesses in control procedures as they are not performed continuously throughout the period and the tests performed on the control procedures are on sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

'Review' in this Report is not used in the context as outlined in the Australian Auditing Standards

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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, broadcasting and digital content.

The framework for spending public money in all Commonwealth Government agencies is set out by the *Financial Management and Accountability Act 1997* (FMA Act). This is further defined in DBCDE's Chief Executive Instructions (CEIs).

CEI 2.1 - General requirements for spending public money specifies the overarching requirements that are to be fulfilled when spending public money. The requirements for the payment of accounts are defined in *CEI 2.2 Payments of accounts*, and detailed in *Practical Guide 2.3 – Payment of Accounts*. These instructional guidelines and practical guide serve as the key operating framework for the processing of financial transactions within DBCDE. These CEIs and Practical Guide are currently being updated and are expected to be finalised by 31 October 2010.

As part of the annual internal audit plan, the Audit Committee requested KPMG to undertake a bi-annual 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 Group Administration Units.

1.2 Objective

The objective of this audit was to consider the procedures for processing and documenting payment transactions across the agency and to ensure that documentation was maintained which evidences the appropriate processing and approval of transactions. This engagement took into account obligations under the FMA Act, DBCDE CEI's, and guidance provided in DBCDE's Practical Guides.

1.3 Scope

The scope of this engagement focused on the transaction processing control environment, in particular the process for documenting transactions to evidence compliance with:

- the FMA Regulations (in particular Regulations 9, 10, 11 and 12);
- delegations, including drawing rights; and
- transaction approvals.

Fieldwork consisted of testing a sample of 50 accounts payable transactions, consisting of 25 Departmental and 25 Administered expenses, and focused on transactions processed in Quarters 3 and 4 of the 2009/10 financial year.

NB: Internal Audit activity was undertaken at a 'point in time' and is not designed to provide ongoing assurance to management or the Audit Committee.

1.4 Summary of Findings and Recommendations

Positive Observations

FMA Compliance

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

Transaction Descriptions

Previous internal audits of financial transactions have raised concerns in relation to the expense descriptions used by staff when processing transactions. Internal Audit noted that of the sample selected for this engagement all transactions provided an accurate description of the business nature of the payment.

Reduction in the instances of procedural non-compliance detected

Internal Audit observed a reduction in the instances of procedural non-compliance detected from sample testing over 2009/10 Q3 and Q4 financial transactions.

While a small number of instances occurred where invoices were not stamped when received (stamping indicates the date the invoice was received so as to enable payment timeframe tracking), previous Internal Audits identified instances of payments being made outside a 30 day timeframe and other instances where goods or services had not been evidenced as received before payment. No findings of this nature were observed by Internal Audit as part of sample testing performed over 2009/10 Q3 and Q4 financial transactions.

Areas Requiring Remedial Action

Minor Observations (CR3)

Internal Audit noted five individual procedural breaches stemming from staff failing to stamp invoices on the date of receipt by the Department.

1.5 Summary of Advice

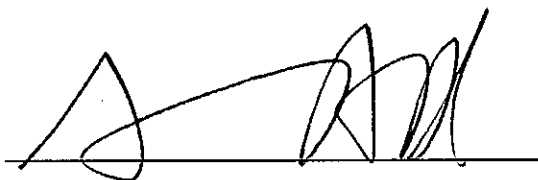
Internal Audit identified a number of minor observations relating to a failure to stamp invoices on the date received. Of note however, is that the overall instances of non-compliance (i.e. failure to stamp invoices, or payments outside a 30 day timeframe) as identified by Internal Audit has reduced based on findings from the *Review of Financial Transactions (Q1 – Q2) (March 2010)*.

Internal Audit's testing was based on processes in place up to 30 June 2010. Subsequent to testing, the CFO Group has rolled out a SAP based system upgrade (effective 5 July 2010) which has resulted in the automation of a number of controls within the 'procurement-to-payment' transaction process. In addition, Internal Audit has been advised by the CFO Group that a further SAP modification is planned (September 2010) to increase the automation of invoice processing.

Considering the CFO Group's recent and planned system and process upgrades Internal Audit has not recommended control modifications. Internal Audit has advised the CFO to contact staff members who are involved in non-compliance to remind them of the ramifications of their actions, and in addition, continue to perform key procedural compliance testing procedures over transactions on an ad-hoc basis.



Don Cross
Partner
KPMG



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

2 Findings and Recommendations

2.1 Finding 1: Minor Observations

Category: CR3

Observation

Internal Audit identified the following instances of non-compliance with the requirements of *Practical Guide 2.3 Payment of Accounts*:

Practical Guide 2.3 Requirements	Practical Guide 2.3 Reference	Results of Testing
Invoice must be stamped with the date of receipt.	Section 3.1.1	Five instances where the invoice was not stamped on the date received.

In discussing these findings with management, Internal Audit was informed that an additional SAP upgrade is scheduled to occur in September 2010 which will increase the automation of invoice processing which is expected to assist in the reduction of procedural non-compliance in the future.

Implication/Risk

The above findings are minor examples of non-compliance with *Practical Guide 2.3 Payment of Accounts*. Adherence to the Practical Guide 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 non-compliance.

Recommendation 1

Given the planned SAP upgrade and the automation of controls around DBCDE's invoice processing procedures, Internal Audit is not recommending a formal control modification, however does recommend that:

- The CFO formally contact parties who have been detected as not complying with procedures, informing them of their requirement to adhere to practical guide requirements in account payment processing (details of detected non-compliances to be provided to Audit Sponsor by Internal Audit); and
- The CFO group continue compliance checking activities over key financial transaction processing controls on an ad-hoc basis.

Management Comments

Agreed

Responsible Officer: Simon Ash, Chief Financial Officer

Deadline for implementation: 25 August 2010

Description of action: The Chief Financial Officer has contacted the staff identified as being non-compliant with the Practical Guide and reinforced with them their requirement to adhere to practical guide requirements in account payment processing.

The CFO Group has planned to continue compliance checking activities over key financial transaction processing controls on an ad-hoc basis.

A Methodology

In the conduct of this engagement, Internal Audit:

Familiarisation

- Liaised with Departmental staff to agree overall approach and scope of the internal audit;
- Drafted and circulated Assignment Plan; and
- Held an opening conference with Audit Sponsor.

Fieldwork and Testing

- Identified payments that deviated from defined 'norm' parameters (e.g. data profiling, duplicates, ratios and sequence gaps); and
- Used CAAT's to select a sample of items and conducted substantive testing to determine the level of compliance with relevant requirements.

Reporting

- Reported on the results of fieldwork as documented above.

B 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	CR Finding		
	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 Documentation to support exercise of delegation: - Doesn't exist What/how: - Breach of delegation exercised by Branch Head and/or above	Any one of the following individually or in combination: Dollar values: - Medium Frequency of breaches: - Periodic Documentation to support exercise of delegation: - Not adequate What/how: - Breach of delegation by middle management	Any one of the following individually or in combination: Dollar values: - Small Frequency of breaches: - Isolated Documentation to support exercise of delegation: - Could be improved What/how: - Breach of delegation reflecting ignorance	



Factors considered when categorising findings		CR1 Finding	CR2 Finding	CR3 Finding
Fraud	All fraud or corrupt conduct identified is reported as CR1	N/a	N/a	N/a

B/R 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).