

Australian Government

Department of Broadband,
Communications and the Digital Economy

Review of Financial
Transactions

Quarter 3

August 2009

FINAL Report

KPMG Canberra

	Planned	Actual
Entrance Interview	February 2009	February 2009
Fieldwork	April 2009	May 2009
Draft Report	May 2009	15 July 2009
Management Comments	13 July 2009	17 August 2009
Final Report	13 July 2009	21 August 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.

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.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form. The findings in this report have been formed on the above basis.

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This report has been prepared at the request of the Department in accordance with the terms of KPMG's engagement letter/contract dated 22 September 2008. Other than our responsibility to the Department, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

Contents

1	Executive Summary	4
1.1	Background	4
1.2	Summary of Findings and Recommendations	4
1.3	Summary of Advice	6
2	Objective and Scope	7
3	Findings and Recommendations	9
3.1	Nature of expenditure (BIR)	9
3.2	Minor Observations (CR3)	10
4	Appendix 1 – Process Maps	12
5	Appendix 2 - Classification of Findings	15

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 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 Quarter 3 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 *Financial Management and Accountability Act 1997* (FMA Act) Regulation 9 or 10 approval was not appropriately documented when required, 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 a legitimate transaction.

Process Documentation

Internal Audit observed that the procedures in place within the Department for processing payments are well designed and documented. A small number of cases were identified of non-compliance (see section 3.2), however when applied appropriately these procedures promote efficiency, effectiveness and legislative compliance. (See process maps, Appendix 1, page 12)

1.2.2 Areas Requiring Remedial Action

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.

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.

1.3 Summary of Advice

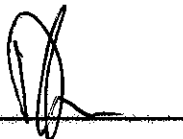
This engagement was undertaken to ensure that documentation is maintained to provide evidence of appropriate processing and approval of payment transactions against the FMA Act and internal procedures. Set out below is our overall advice covering these areas.

In conducting our testing of a sample of financial transactions, Internal Audit identified no instances of failure to comply with Regulation 9, 10 and 12 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.

Both of the above findings were addressed by recommendations made in the previous Quarter 1 & Quarter 2 Review of Financial Transactions (issued in May 2009), considering this engagement reviewed transactions from the period January to March 2009, the review did not encompass any transactions performed after the implementation of the prior recommendations, as such no new recommendations have been issued. Internal Audit would expect to see improvements in these areas in the coming financial year.



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 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.
- Obtained transaction lists for the relevant quarter.

Fieldwork and Testing

- Identified payments that deviated from defined 'norm' parameters (e.g. data profiling, duplicates, ratios and sequence gaps).
- Used Computer Assisted Auditing Techniques (CAATs) to select a sample of items and conducted 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 was given to management at the completion of the fieldwork.
- A draft report was issued with recommendations on improvements to controls, procedures and process.
- 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	1,584	25	\$15,450,276.02	\$4,647,251	30.08%
Accounts Payable - Administered	368	25	\$35,988,042.22	\$9,818,213.83	27.28%
Credit Card	759	25	\$160,342.78	\$24,284.50	15.14%
Total	2,711	75	\$51,598,661.02	\$14,489,749.33	

3 Findings and Recommendations

3.1 Nature of expenditure (BIR)

Observation

Internal Audit noted three 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 issued a recommendation in relation to this type of finding in the Quarter 1 & Quarter 2 Financial Transaction Report (issued May 2009), considering this engagement reviewed transactions from the period January to March 2009, the review did not encompass any transactions performed after the implementation of the prior recommendation, as such no new recommendation is issued.

Management Comment

Agreed

Responsible Officer: Assistant Secretary – Finance

Deadline for implementation: 30 September 2009

Description of action: All current Accounts Payable data entry and checking staff have been made aware of the requirement. In addition, the 'cheat sheet' for 'entry of purchase order claim for payment', will be updated to indicate why descriptions should reflect the nature of expenditure and indicate that this description is reviewed to confirm the expenditure does not relate to personal expenses.

3.2 Minor Observations (CR3)

Observation

Internal Audit made the following observations:

- 1) 12 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) 14 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) 7 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 breakdowns, 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 non-compliance.

Recommendation

Internal Audit issued a recommendation in relation to this type of finding in the Quarter 1 & Quarter 2 Financial Transaction Report (issued May 2009), considering this engagement reviewed transactions from the period January to March 2009, the review did not encompass any transactions performed after the implementation of the prior recommendation, as such no new recommendation is issued.

Management Comment

Agreed

Responsible Officer: Assistant Secretary – Finance

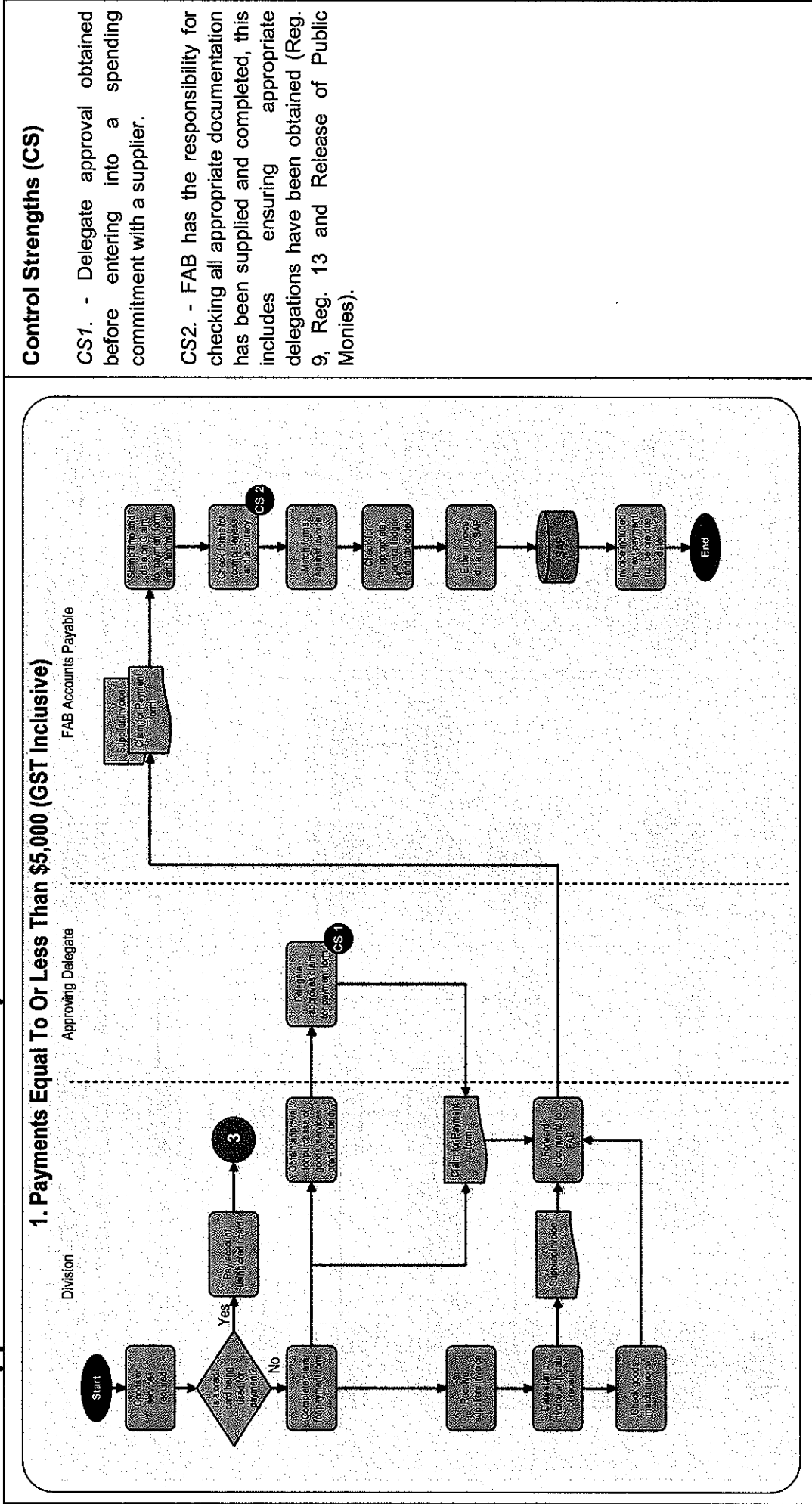
Deadline for implementation: 30 September 2009

Description of action: Internal policies and procedures (namely *CEI 2.3 Payment of Accounts* and *Practical Guide 2.3*) will be updated to provide greater clarity on when 30 day payment terms need to be adhered to by the Department i.e this is a requirement for payment under procurement contracts with small businesses. Policies and procedures will be updated by 30 September 2009.

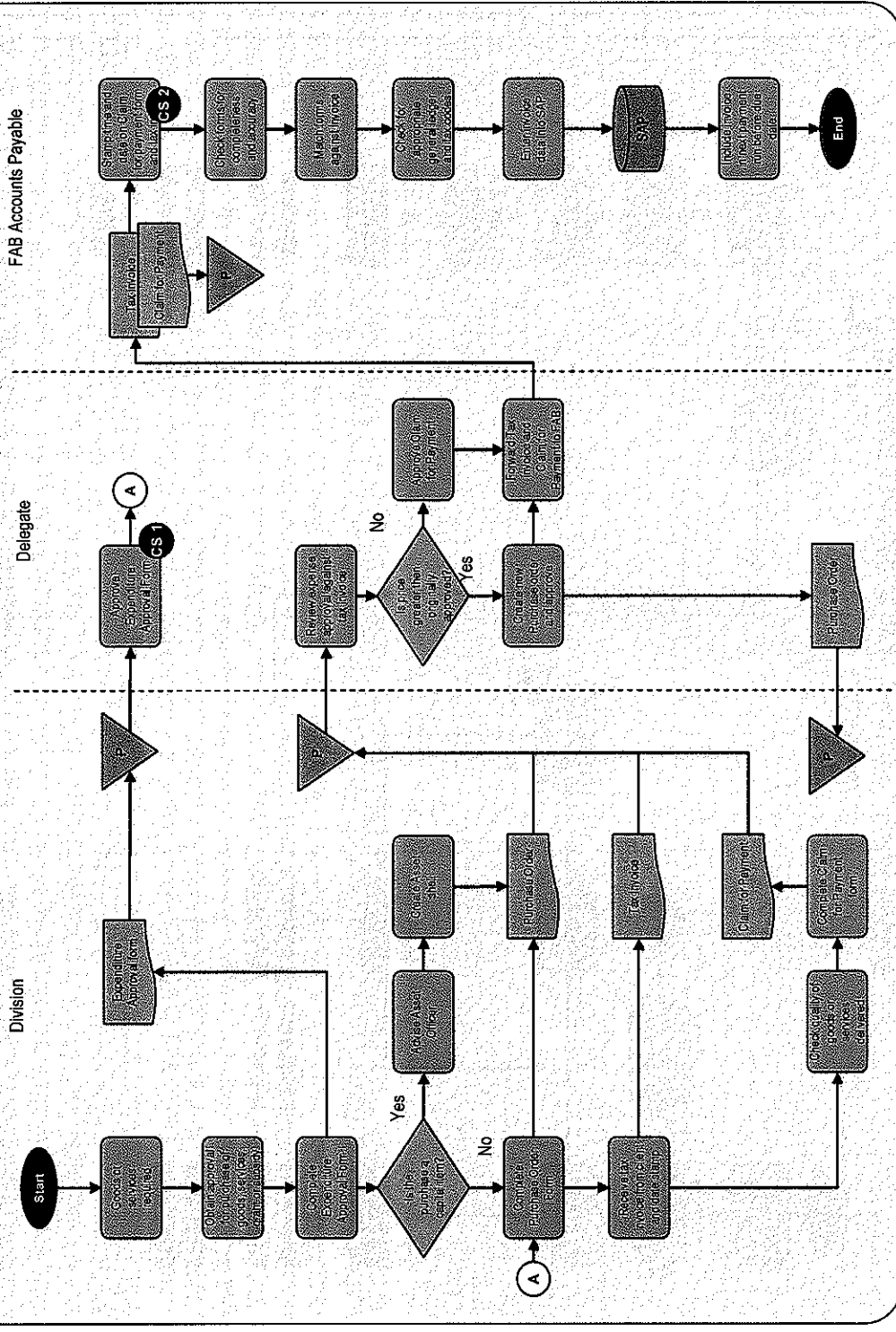


As part of the planned education and training program for GAUs and other affected staff members, the importance and impact of the payment processes, including date stamping and goods receipting, will be addressed.

4 Appendix 1 – Process Maps



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



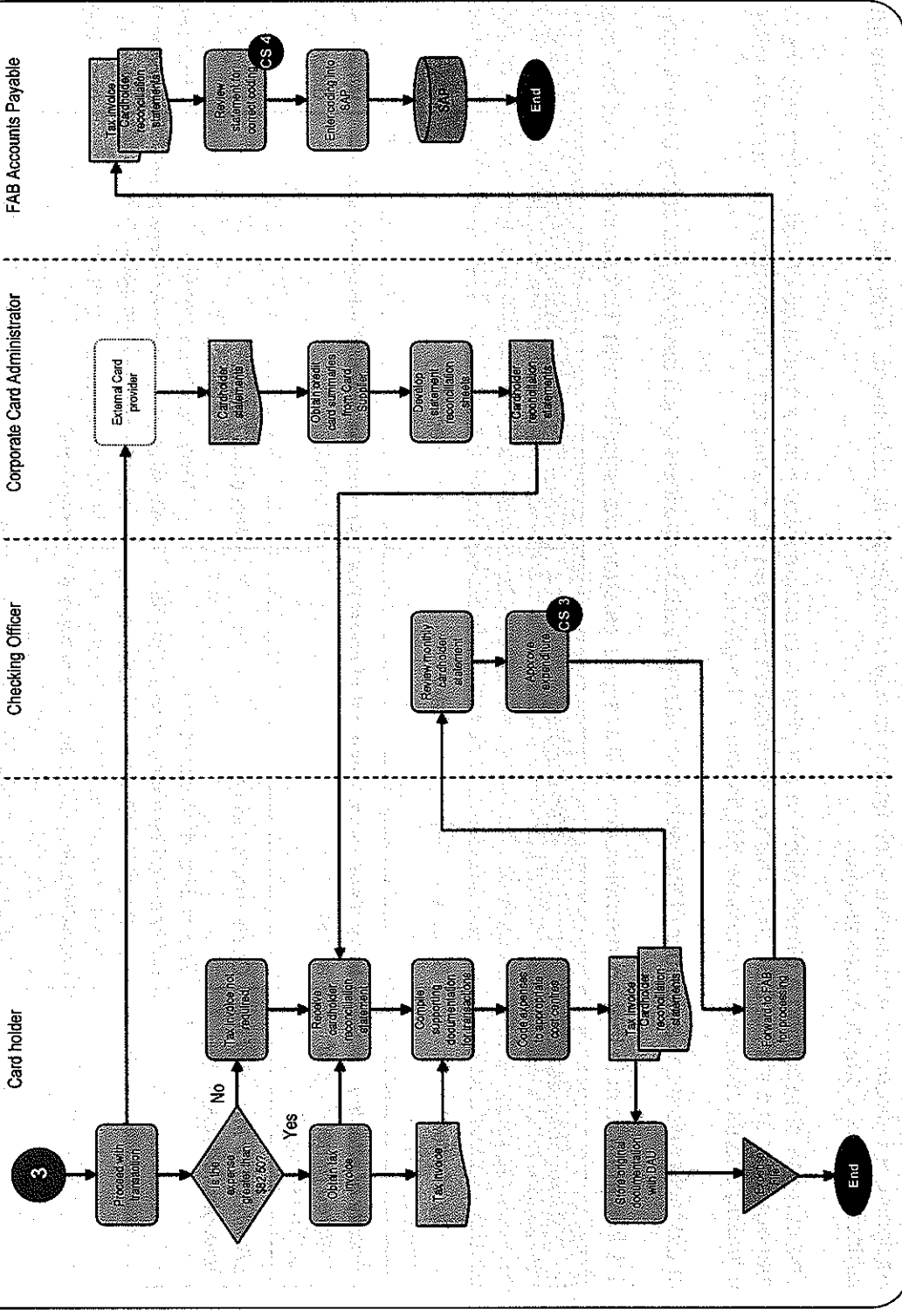
Control Strengths (CS)

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
Priority of attention required (Who)	Secretary / Deputy Secretary	Deputy Secretary	Deputy Secretary
Priority of attention required (timeliness of action required)	Immediate commencement of corrective action	As soon as practical within the next 3 – 6 months.	When resources permit at the discretion of the organisation.
Likelihood or impact of the uncontrolled risk	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
Suitability of the policies and/or procedures	<p>No policies and/or procedures exist.</p> <p>Policies and/or procedures are not considered appropriate to manage a significant risk or function of the organisation.</p>	<p>No policies and/or procedures exist.</p> <p>Policies and/or procedures are not considered appropriate to manage a core business risk or routine function.</p>	<p>Policies and/or procedures are appropriate but out of date (the effect is not considered of serious consequence).</p>
Compliance with documented procedures and policies	<p>Policies and/or procedures are not being complied with.</p>	<p>Policies and/or procedures are not being complied with consistently (frequency and quality).</p> <p>Documentation does not reflect proper compliance with procedures and policies</p>	<p>Infrequent instances of non-compliance with policies and procedures were identified.</p>
Breach of delegations (financial and non-financial)	<p>Any one of the following individually or in combination:</p> <p>Dollar values:</p> <ul style="list-style-type: none"> - Large <p>Frequency of breaches:</p> <ul style="list-style-type: none"> - Regular 	<p>Any one of the following individually or in combination:</p> <p>Dollar values:</p> <ul style="list-style-type: none"> - Medium <p>Frequency of breaches:</p> <ul style="list-style-type: none"> - Periodic 	<p>Any one of the following individually or in combination:</p> <p>Dollar values:</p> <ul style="list-style-type: none"> - Small <p>Frequency of breaches:</p> <ul style="list-style-type: none"> - 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).