

Australian Government

Department of Broadband,
Communications and the Digital Economy

Review of Financial
Transactions

Quarters 1 & 2

March 2010

Final Report

KPMG Canberra

| | Planned | Actual |
|---------------------|----------------|---------------|
| Entrance Interview | December 2009 | December 2009 |
| Fieldwork | January 2010 | January 2010 |
| Draft Report | January 2010 | February 2010 |
| Management Comments | February 2010 | March 2010 |
| Final Report | February 2010 | March 2010 |

Audit Sponsor: Simon 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.

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.

'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.

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 the General Administration Units (GAU's).

1.2 Objective

The objective of this audit was to consider the procedure for processing and documenting payment transactions across the agency and ensure that documentation is maintained which evidences the appropriate processing and approval of transactions. This engagement took into account obligations under the FMA Act, required by the Department of Finance and Deregulation, 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 1 and 2 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.

SAP Upgrade

The Department is currently in the process of upgrading its SAP based Financial Management Information System. Phase 2 of this project incorporates a review of DBCDE's 'procurement-to-payment' process with the intention to improve the control environment through the implementation of workflows and the automation of a number of key controls. DBCDE anticipates that the successful roll-out of this SAP upgrade will increase operating efficiencies within the accounts payable process and reduce the residual risk associated with transaction processing.

Internal Audit recommends that DBCDE use this process of converting manual processes to automated workflows as an opportunity to review documentation and in particular the wording against signoffs. For example, the current checking officer procedures require appropriate 'delegatory limit sign-off'. We understand this is only an internal title which can cause a misconception that the procedure has an FMA Act requirement.

Areas Requiring Remedial Action

Minor Observations (CR3)

Internal Audit noted the following procedural breaches:

- Failure to pay suppliers within a 30 day timeframe;
- Failure to evidence that goods or services were received before payment was made; and
- Failure to stamp invoices on the date they are received.

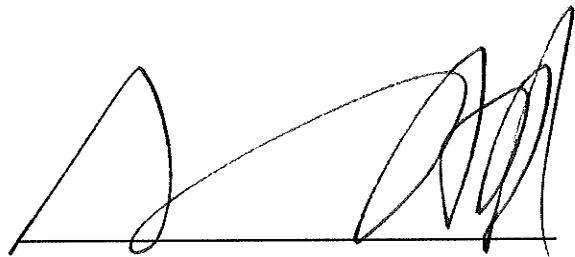
1.5 Summary of Advice

Internal Audit observed a number of minor observations relating to procedural non-compliance which expose the Department to greater risk of FMA non-compliance.

In discussion with CFO Group, Internal Audit has been informed that the Department is currently undertaking a project to upgrade SAP (the Department's Financial Management Information System). As part of this project CFO Group are reviewing the 'procurement-to-payment' process with the view of adapting the functionality available in SAP to automate a number of controls. As such, Internal Audit has not recommended control modifications and instead has advised the CFO to contact staff members who are involved in non-compliance to remind them of the ramifications of their actions. Following the SAP upgrade in May 2010, it is anticipated these issues should no longer be noted.



Don Cross
Partner
KPMG



Simon 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 |
|--|-------------------------------|---|
| Payments to suppliers must be made within 30 days. | Section 2.8.1 | Nine instances where payment was made outside of 30 days. |
| Receipt of goods or services must be evidenced before payment is made. | Sections 4.1 and 4.2 | Six instances where there was no evidence from the GAU/Business area indicating that the goods had been received. |
| Invoice must be stamped with the date of receipt. | Section 3.1.1 | Six instances where the invoice was not stamped on the date received. |

Internal Audit has observed these findings on a continual basis since the cyclical internal audits of financial transactions commenced in the 2008/09. In discussing these ongoing findings with management, Internal Audit was informed that through the rollout of the SAP upgrade, CFO Group are planning to implement a number of automated controls, which should prevent the above procedural non-compliance occurring.

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 SAP upgrade project currently in progress, 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).

Management Comments

Agreed

Responsible Officer: Simon Ash, Chief Financial Officer

Deadline for implementation: 17 March 2010

Description of action: The CFO has contacted the relevant officers and their supervisors and informed them of their requirement to adhere to practical guide requirements in account payment processing.

In addition, an update and review of all CEIs and Practical Guides has commenced to bring them more into line with current guidance.

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 | CR1 Finding | | | CR2 Finding | | CR3 Finding | |
|---|--|---|---|---|---|---|---|
| | Secretary / Deputy Secretary | Deputy Secretary | Deputy Secretary | Deputy Secretary | Deputy Secretary | Deputy Secretary | Deputy Secretary |
| <i>Priority of attention required (Who)</i> | Secretary / Deputy Secretary | Deputy Secretary | Deputy Secretary | Deputy 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. | As soon as practical within the next 3 – 6 months. | As soon as practical within the next 3 – 6 months. | As soon as practical within the next 3 – 6 months. | As soon as practical within the next 3 – 6 months. | As soon as practical within the next 3 – 6 months. |
| <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. | Moderate / Minor The likelihood/impact of the uncontrolled business or financial risk would threaten the efficiency or effectiveness of an aspect of operations. | Moderate / Minor The likelihood/impact of the uncontrolled business or financial risk would threaten the efficiency or effectiveness of an aspect of operations. | Moderate / Minor The likelihood/impact of the uncontrolled business or financial risk would threaten the efficiency or effectiveness of an aspect of operations. | Moderate / Minor The likelihood/impact of the uncontrolled business or financial risk would threaten the efficiency or effectiveness of an aspect of operations. | Moderate / Minor The likelihood/impact of the uncontrolled business or financial risk would threaten the efficiency or effectiveness of an aspect of operations. |
| <i>Suitability of the policies</i> | No policies and/or procedures exist. | No policies and/or procedures exist. | No policies and/or procedures exist. | No policies and/or procedures exist. | No policies and/or procedures exist. | No policies and/or procedures exist. | No policies and/or procedures exist. |



| Factors considered when categorising findings | | CR1 Finding | CR2 Finding | CR3 Finding |
|--|--|--|--|-------------|
| <i>and/or procedures</i> | Policies and/or procedures are not considered appropriate to manage a significant risk or function of the organisation. | Policies and/or procedures are not considered appropriate to manage a core business risk or routine function. | 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 | |
| <i>Fraud</i> | 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).