

Australian Government

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Department of Broadband,  
Communications and the Digital Economy

Review of Financial  
Transactions

Quarter 4

September 2009

FINAL Report

KPMG Canberra

	<b>Planned</b>	<b>Actual</b>
Entrance Interview	July 2009	July 2009
Fieldwork	July 2009	26 August 2009
Draft Report	July 2009	1 September 2009
Management Comments	August 2009	3 September 2009
Final Report	August 2009	3 September 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.

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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 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 4 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 will promote efficiency, effectiveness and legislative compliance. (See process maps, Appendix 1, page 12)

#### *Transaction Descriptions*

Previous Financial Transactions Reviews have consistently 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.

## 1.2.2 Areas Requiring Remedial Action

### *Credit Card Statement Review (BIR)*

Internal Audit tested a number of transactions where a payment had been made by corporate credit card and noted the following:

- Two instances where the cardholder supervisor had not signed the Cost Allocation Detail (CAD) statement; and
- Three instances where the cardholder supervisor who had signed the cardholder's CAD had illegibly documented their review (i.e. the supervisor could not be identified).

### *Minor Observations (BIR)*


Internal Audit noted the following minor procedural breaches:

- Failure to pay suppliers within a 30 day time frame; and
- Failure to stamp invoices on the date received.

### 1.3 Summary of Advice

Internal Audit in performing the testing over Financial Transactions for Quarter 4 of the 2008/09 financial year, has noted a number of improvements made by the Department in the areas of expense descriptions, and in the process of evidencing goods/services as receipted before payment. However a number of areas for continued improvement were additionally noted in the area of policy and procedure compliance.

Internal Audit acknowledges that there were changes to the Credit Card internal policy (Practical Guide 2.4) made during the testing period, and in addition during the testing period the Department implemented recommendations stemming from the Review of Financial Transactions Quarter 1 & 2 Report. As such Internal Audit is expecting to see the necessary improvements take place in subsequent quarterly reviews.



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Partner  
KPMG



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Department of Broadband,  
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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	1,753	25	\$11,770,549	\$1,584,692.34	13.46%
Accounts Payable - Administered	810	25	\$62,909,159	\$13,919,547.67	22.13%
Credit Card	1,549	25	\$333,769.86	\$24,983.60	7.49%
<b>Total</b>	<b>4,112</b>	<b>75</b>	<b>\$75,013,477.86</b>	<b>\$15,529,223.61</b>	



## 3 Findings and Recommendations

### 3.1 Credit Card Statement Review (BIR)

#### **Observation**

Practical Guide 2.4 – Credit Cards was updated effective 13 May 2009 and now requires a Cardholder’s immediate supervisor to sign, date and print their full name on the CAD Report each month.

Internal Audit made the following observations while performing testing over credit card expenditure:

- Two instances where a supervisors sign-off could not be evidenced on the Credit Card monthly statement; and
- Three instances where the supervisor signature could not be distinguished to identify who had signed-off on the Credit Card monthly statement.

#### **Implication / Risk**

The above finding is a minor example of non-compliance with the current Credit Card practical guide (Issued 13 May 2009), which requires supervisors to sign-off on the CAD report to confirm the transactions are for Commonwealth purpose and are an appropriate use of public monies.

Failure to obtain or clearly document supervisor sign-off of CAD reports increases the risk that inappropriate use of public monies is not detected.

#### **Recommendation**

Management should ensure that supervisors review monthly statements to verify the appropriateness of transactions, and print their name clearly to ensure an appropriate audit trail is maintained. The internal quarterly credit card audits that are currently undertaken should include checking whether monthly statements have been signed off by Card Holders and Supervisors.

#### **Management Comment**

Agreed

*Responsible Officer:* Assistant Secretary - Finance

*Deadline for implementation:* 30 September 2009

*Description of action:* The processes and procedures for credit cards are being revised. The revised guidance and processes will be approved by the Secretary by 30 September 2009. Once approved, the new guidance and processes will be communicated to all staff who use credit cards.

## 3.2 Minor Observations (BIR)

### Observation

Internal Audit made the following observations:

- 1) 11 instances where payments to suppliers were made outside the 30 day account payment guidelines as mandated in section 2.8.1 of the Departments' Practical Guide 2.3 – Payment of Accounts. Only one of these late payments was to a confirmed small business which is inconsistent with the directives of Finance Circular 2008/10.
- 2) 10 instances where the invoice was not stamped on the date received as required by section 3.1.1 of the Departments' 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.

In addition, payments made outside 30 days to small businesses is inconsistent with Government wide better practice as stipulated within Finance Circular 2008/10.

### Recommendation

Internal Audit issued a recommendation in relation to these findings in the Quarter 1 & Quarter 2 Financial Transaction Report (issued May 2009), considering this engagement reviewed transactions from the period April to June 2009, the review encompassed a small number of transactions performed after the implementation of the prior recommendation, as such no new recommendation has been issued.

### Management Comment

Agree

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

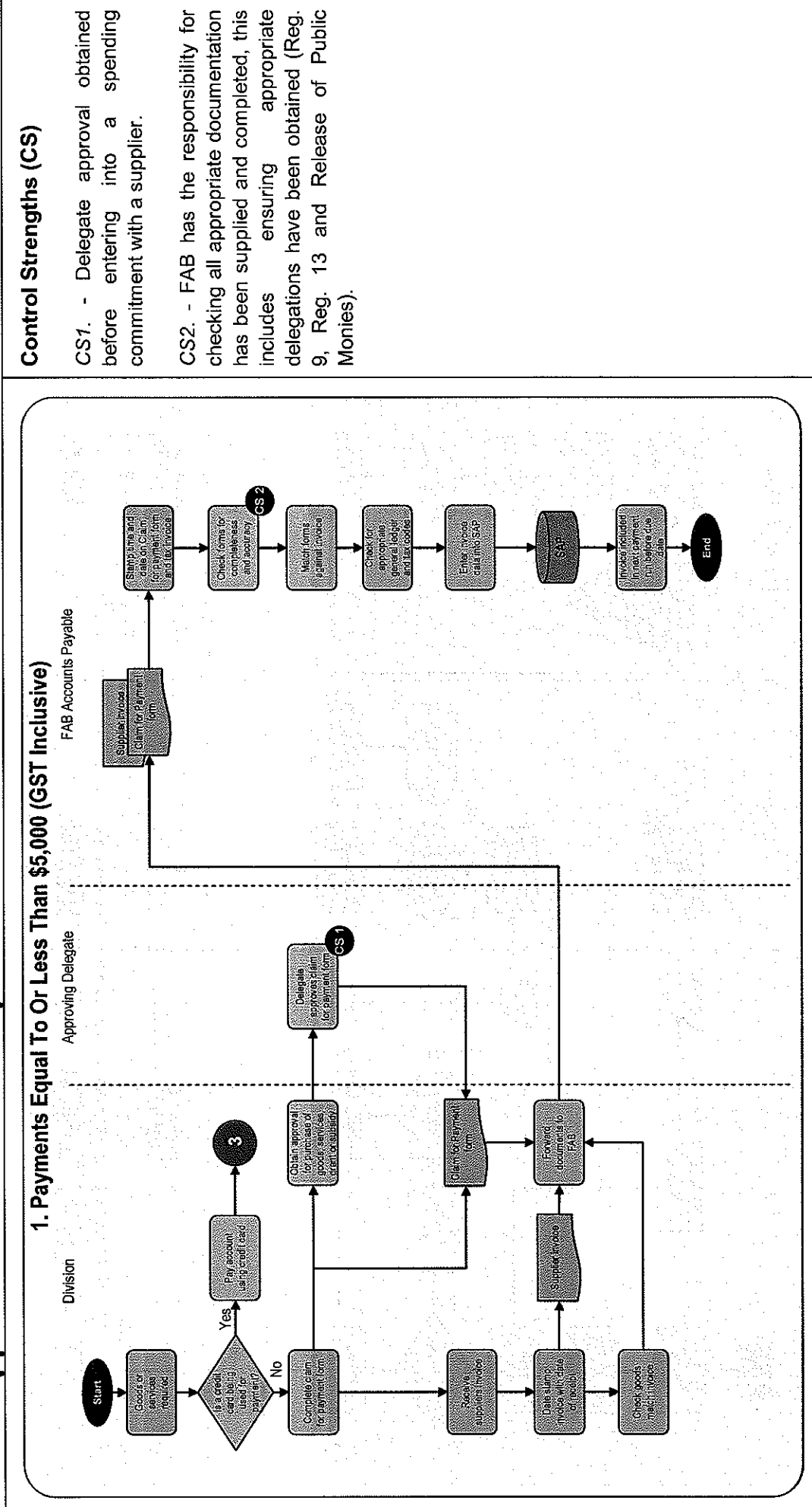


impact of the payment processes, including timely payments to small businesses, date stamping and goods receipting, will be addressed.

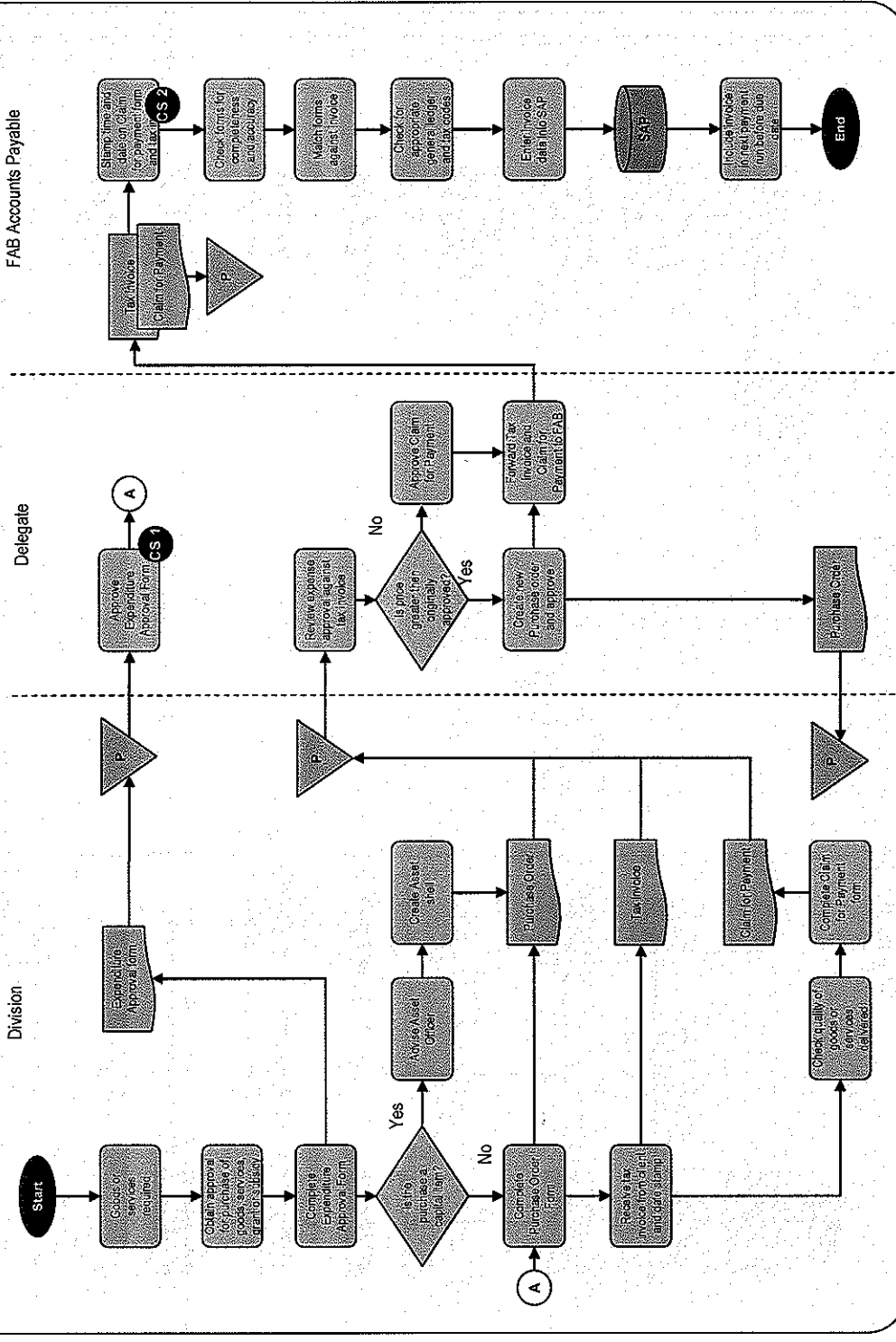




## 4 Appendix 1 – Process Maps



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



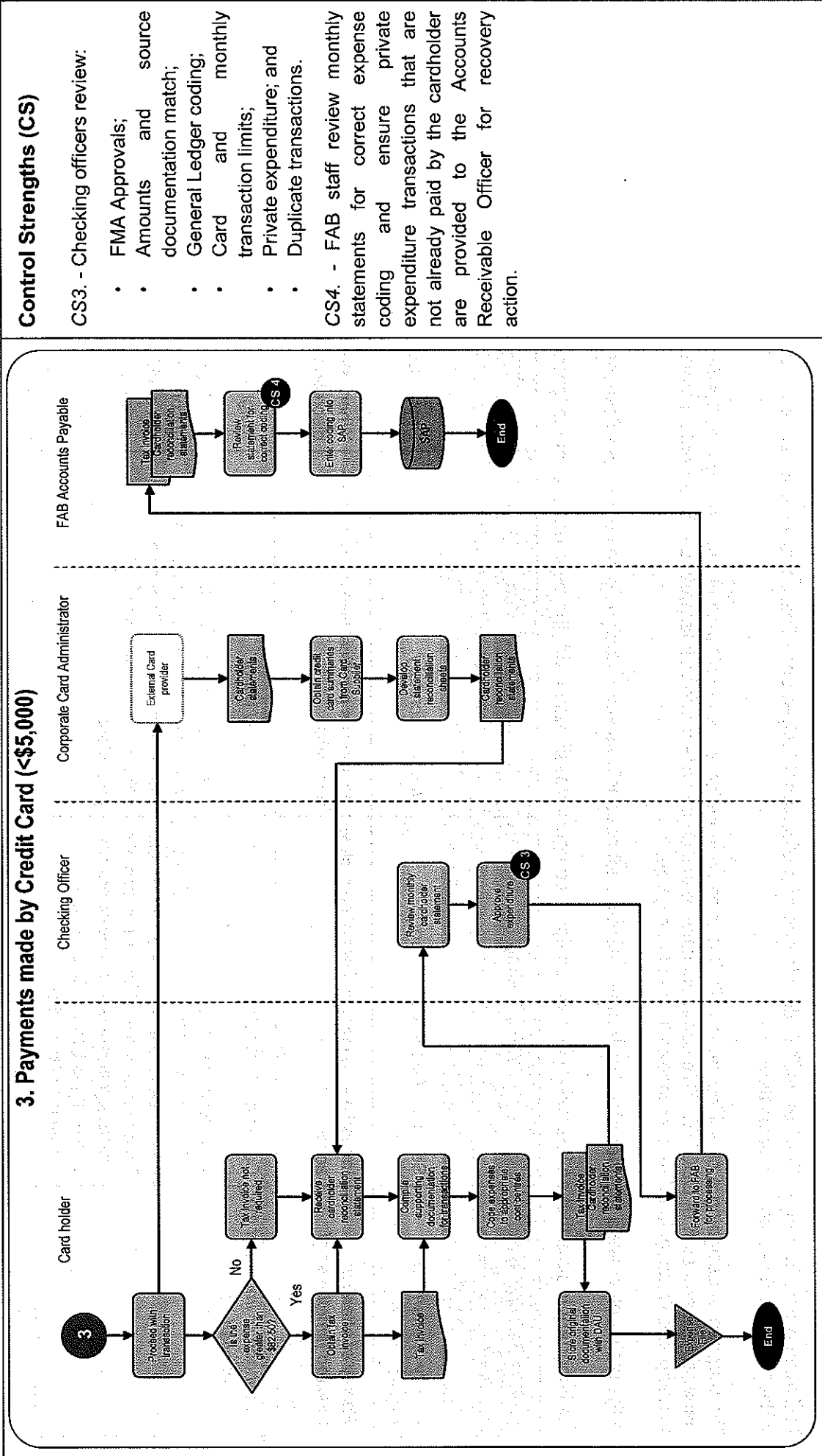
### Control Strengths (CS)

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
<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"> <li>- Doesn't exist</li> </ul> <p>What/how:</p> <ul style="list-style-type: none"> <li>- Breach of delegation exercised by Branch Head and/or above</li> </ul>	<p>Documentation to support exercise of delegation:</p> <ul style="list-style-type: none"> <li>- Not adequate</li> </ul> <p>What/how:</p> <ul style="list-style-type: none"> <li>- Breach of delegation by middle management</li> </ul>	<p>Documentation to support exercise of delegation:</p> <ul style="list-style-type: none"> <li>- Could be improved</li> </ul> <p>What/how:</p> <ul style="list-style-type: none"> <li>- Breach of delegation reflecting ignorance</li> </ul>
<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).