

Report on Ministerial Portfolios at November 30, 2001

Report 13 – December 2001

Executive Summary

This Report provides:

- a summary of the results of financial statement and performance indicator audits completed to November 30, 2001, including specific references to qualifications of financial statement and performance indicator opinions;
- an overview of public sector audit issues; and
- commentary on specific control issues and accounting and contemporary issues.

To November 30, 2001, 226 financial statements and 198 performance indicator audits have been completed as part of the 2001 audit cycle. These audits were completed using the Office's new internationally recognised audit methodology adapted to the public sector business environment. In addition to delivering more efficient and effective audits, the methodology fosters clearer and more frequent communication with agency management in relation to their financial operations and provides management with meaningful business advice.

Summary of Results – Financial Statement and Control Audits

Of the 226 financial statement and control audits completed, the opinions of five agencies were qualified in relation to their financial statements, controls or compliance with relevant laws. The more significant of these were:

- Department of Transport: Monthly reconciliations of the Department's bank accounts included unexplained reconciling items that varied from month to month. As the reconciliations had not been finalised and there was \$2.486 million in outstanding reconciling items at reporting date, an opinion could not be formed on whether Cash Assets of \$42 846 million in the Statement of Financial Position and Cash of \$1.29 million in the Schedule of Administered Items were fairly presented.
- Rottneest Island Authority: The Authority did not have adequate procedures in place to ensure that controls over hotel revenue were operating effectively throughout the year. In addition, the Authority did not have controls in place to ensure the accuracy and completeness of the information provided by third parties which is used to determine the landing revenue due.
- The National Trust of Australia (W.A.): Internal controls over the receipting and banking of monies were not adequate. As a result, an opinion could not be formed on whether \$1.302 million included as Other Revenues in the Statement of Financial Performance was fairly presented. Furthermore, controls over transactions relating to the expenditure of moneys were not adequate and did not comply with legislative provisions.

During the audit cycle, a range of audit findings were reported through management letters to individual agencies. Common issues identified across agencies were:

- Information Technology Controls: issues identified included access and security weaknesses such as inadequate password security settings and a lack of approval and review over the level of access provided to staff, inadequate controls over system modifications and a lack of effective disaster recovery plans to facilitate the recovery of systems in a timely manner.
- Reconciliations, which involve agreeing an amount recorded in a system to another source of information, is a fundamental control for ensuring the completeness and accuracy of information. Bank, payroll and other reconciliations were not being regularly performed and/or reviewed in a number of agencies.

In addition, a procurement issue was identified at Fremantle Hospital and Health Service, which has resulted in a more wide-ranging review of procurement practices in the public health sector being commenced by audit. This issue involves perceptions of conflicts of interest and bias involving the procurement of medical equipment. Additional benefits (or "value added components"), including a \$10 000 "educational grant", were offered by one of the respondents to a public tender and influenced the decision of the tender evaluation panel. The \$10 000 "educational grant was paid into an unauthorised bank account maintained to the benefit of some members of the evaluation panel.



Office of the Auditor General Western Australia

Summary of Results – Performance Indicators

There is a continuing positive trend in the development of performance indicators. To November 30, 2001, 185 unqualified opinions on the performance indicators of 191 agencies were issued. Five of the qualified opinions related to agencies not collecting customer information on which to base effectiveness indicators. In addition, a further seven agencies did not submit indicators as required by the FAAA.

A review of customer satisfaction and market surveys used for performance indicator reporting continued again this year. There has been an improvement in the survey methodology and disclosures although there is still scope for improving the response rates to eliminate response bias and reducing standard error rates by increasing the number of survey respondents.

Control Issues

In addition to the annual audit of all agencies, further complementary reviews of the reliability of the operations of systems and procedures were undertaken in selected agencies. Controls at most agencies were generally found to be operating effectively, however the following issues were identified:

- **Assets:** improvement was required in a number of agencies with acquisitions, movements and disposals not being updated in the asset register in a timely manner and the asset register not being regularly reconciled to general ledger accounts. In addition, asset expenditures were not always capitalised in accordance with agencies' accounting policies, while some agencies policies were also out of date and needed further development or enhancement.
- **Expenditure:** control weaknesses identified included inadequate segregation of duties in areas such as creating and authorising changes to accounts payable and vendor master files and inadequate authorisation and checking of payments. Exceptions were also noted where transaction supports and explanations for credit card purchases were not always adequate.
- **Payroll:** issues identified included a lack of regular reconciliations of the payroll system and the general ledger, payroll adjustments not being reviewed by an independent officer to ensure the accuracy of these transactions and payroll reports not being reviewed by section management to payments are correct.
- **Purchasing and Procurement:** minor exceptions were noted including not always obtaining a sufficient number of quotes contrary to State Supply Commission policies, formal extensions to contracts had not been made although services were still being received and manuals of purchasing procedures had not been updated to take into account current practices. In addition, agencies were not always requiring disclosures by staff of financial interests, which could impact on the probity of the purchasing function.

Accounting and Contemporary Issues

The report also includes a commentary on the following significant issues which occurred during the year, including:

- the sale of Westrail freight business for \$265 million and associated lease of the rail infrastructure which is for a term of 49 years. The annual lease rentals were fully prepaid at the inception of the lease for \$292.5 million.
- the arrangements surrounding the sale of the Gas Corporation (AlintaGas), which resulted in, the State receiving total gross proceeds of \$971 million.
- finalisation of the State's light vehicle fleet (Matrix) leasing arrangement which involved a debt facility of \$250 million being arranged to make payments related to the winding up and to fund the ongoing acquisition and replacement of vehicles.
- consequences resulting from the provisional liquidation of HIH Casualty and General Insurance Limited. The major impact has been in the area of workers compensation insurance where an outstanding claims liability of \$122.3 million has been assessed.