

Fourth Public Sector Performance Report 2009

Report 12 – November 2009

This fourth Public Sector Performance Report for 2009 brings to notice legislative compliance and control issues from three examinations.

Preliminary Examination of the Royalties for Regions Program

Background

Royalties for Regions is a key commitment of the State Government. Cabinet endorsed a decision in October 2008 that 25 per cent of mining and on-shore petroleum royalty revenue will be distributed to regional Western Australia via investment in projects, infrastructure and community services. These funds are additional to those provided under regular programs. The value of the program in 2009-10 is estimated at \$644 million, approximately four per cent of the total state budget.

The objectives of this preliminary examination were to detail the roles and responsibilities of the government agencies involved in the initiative and to review the high level controls and governance arrangements that have been put in place. The preliminary examination also identified areas for future audit focus.

What the examination found...

Three hundred and eight million dollars was distributed under the Royalties for Regions program between May and July 2009. Money was distributed in accordance with the high level objectives and eligibility criteria for the funds and projects we reviewed. The development and implementation of an appropriate accountability and governance framework for the Royalties for Regions program has lagged behind the initial disbursement of funds. The Department of Regional Development and Lands (RDL) has made good progress in developing the framework since taking responsibility in October 2008. It is also addressing some key elements which are yet to be fully implemented. Once fully implemented, the framework should provide appropriate accountability for the funds and ensure that processes are in place for the communication, implementation, monitoring and evaluation of the program. Specifically we found:

- In July 2009, RDL established an appropriate 'Royalties for Regions Governance and Evaluation Framework'. Key elements are Memoranda of Understanding (MOUs) and agreements between RDL and delivery organisations. These define

accountability and governance arrangements. They also detail support, resources, reporting, branding and delivery requirements for individual projects. The first round of quarterly reports will be received in October and November 2009. These reports will be the first formal acquittal of project finances and progress reports to date.

- \$308 million has been distributed to 16 projects which require MOUs or agreements. However, at 30 September 2009, RDL had not finalised MOUs and agreements with delivery agencies for half of these projects. RDL advised that there are concerns with the reporting and auditing requirements of the MOUs. RDL is withholding further funds until the MOUs are signed. It expects that all MOUs should be finalised by the end of 2009.
- RDL is taking proactive measures to review and, where necessary, improve the accountability, governance and reporting frameworks for Royalties for Regions.
- We found errors in the recording and reporting of project expenditure within the Department of Local Government and issues with the accounting treatment of program funds at one Regional Development Commission. If undetected, such errors can significantly affect the transparency and accountability of the program.

Accountability for Government Grants

Background

Government agencies provide hundreds of millions of dollars in grants each year to non-government organisations to carry out programs that benefit the community or contribute to the goals of the agency. Accountability by the non-government organisations for how grant moneys are spent is a critical part of the funding arrangements. However, those arrangements should not impose an unreasonable administrative burden on non-government organisations. The arrangements need to be proportional to the amount of funding provided and complexity of purpose.

Our audit involved three public sector agencies – the Western Australian Health Promotion Foundation (Healthway), the Department of Sport and Recreation (DSR) and the former Department of Education and Training (DET). We also used our



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'follow-the dollar' powers to examine how 15 non-government organisations that received grants from these three agencies expended and managed the funds.

What the examination found...

We found that Healthway and DSR generally administered their grants appropriately, but there were some opportunities for improvement. DET did not have appropriate accountability arrangements. DET assigned responsibility for grants to individual managers without addressing the risks involved in this devolved approach. Subsequently, DET adopted new procedures to manage these risks. We found that recipient organisations had spent their grants for the intended purpose and could adequately account for their grant expenditure and performance. Specifically we found:

- Healthway and DSR adequately administered their grants and/or sponsorships
- DET had devolved responsibility for grants administration to individual managers without addressing the risks associated with this approach
- There are opportunities for all three agencies to improve the accountability arrangements for their grants to ensure that the conditions and obligations are appropriate and commensurate with the amount and type of funding provided
- Recipients of grants from Healthway, DSR and DET spent their grants for the intended purpose. There are opportunities for some recipient organisations to improve governance by formalising risk management strategies and improving internal management reporting on progress in relation to grants.

Management of Government Purchasing Cards

Background

Western Australian government purchasing cards are an important part of public sector purchasing. In 2008-09, agencies used 14 500 cards to purchase \$237 million in goods and services, up from 6 585 cards and \$42 million in 2004. This reflects government policy to increase the use of cards. Using purchasing cards helps agencies to streamline purchasing and payment practices and to improve their cash management. In taking advantage of these opportunities, however, agencies need to take reasonable precautions to prevent inappropriate purchases.

This examination assessed whether there were adequate controls over the management of purchasing cards in 25 public sector agencies and whether the cards were used appropriately.

What the examination found...

Controls over the management of purchasing cards were generally adequate in the 25 agencies that we examined. Although we found instances of non-compliance with required procedures and areas for improvement in controls at 22 agencies, we found no evidence of cards being misused. The most common areas of non-compliance were in providing evidence to support transactions, and in acquitting and certifying purchases. Specifically we found:

- Three agencies had good policies and were managing their cards well. They were the East Perth Redevelopment Authority, the Public Trustee and the Western Australia Treasury Corporation
- Areas requiring improvement amongst the other 22 agencies were:
 - 17 agencies had gaps in their policies and procedures for managing purchasing cards. Mostly, this involved a lack of clear procedures for cancelling cards and/or dealing with cards of staff members during periods of leave
 - 16 agencies had credit card transactions that lacked evidence to support purchases and/or credit card statements had not been acquitted and/or payments were not certified
 - 40 per cent of sampled entertainment transactions lacked sufficient documentation to support the business nature of the expenditure. These types of transactions represent about one per cent of the total number of transactions.
 - The register of cardholders at 12 agencies lacked all the information required to meet good practice.
- Twelve agencies had reviewed their use of purchasing cards in the last three years. Such reviews give agencies assurance that their processes are effective.