



Western Australian Auditor General's Report

Fourth Public Sector Performance Report 2009

Report 12 – November 2009





THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

FOURTH PUBLIC SECTOR PERFORMANCE REPORT 2009

I submit to Parliament my fourth Public Sector Performance Report for 2009 under the provisions of section 25 of the Auditor General Act 2006.

A handwritten signature in black ink, appearing to read 'C. Murphy'.

COLIN MURPHY
AUDITOR GENERAL
11 November 2009

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Auditor General's Overview

This is the fourth Public Sector Performance report for 2009. These reports address performance by public sector agencies across a broad spectrum of government operations with the findings and recommendations having relevance across the sector.

In this report my Office has examined matters relating to administration and governance of public funds in over 30 agencies as well as in 15 non-government organisations that receive government funding. The three items in the report are:

- preliminary examination of the Royalties for Regions program
- accountability for government grants
- management of government purchasing cards.

The first examination deals with the Royalties for Regions initiative. This was a preliminary examination that assessed the high level controls put in place to manage the hundreds of millions of dollars that will be distributed annually under this program. This program was a priority area for audit focus given that it involved the establishment of a new agency and the distribution of large grants to organisations that have little experience with the governance and accountability arrangements required for this level of funding.

The second examination assessed how three agencies and 15 non-government organisations administered grants ranging from tens of thousands up to millions of dollars. Government agencies often work in partnership with the non-government sector to deliver key services to the community. It is important that these grant and service delivery arrangements are sufficiently flexible to operate without restrictive 'red-tape'. However, it is also important to ensure there are sufficient accountability arrangements in place to provide assurance that funds are being used for the purposes intended. This was the first major examination where I have used the 'follow-the-dollar' powers provided by the Auditor General Act 2006. These powers will also be used in future examinations of funding recipients under the Royalties for Regions initiative.

The third examination looked at the management of government purchasing cards by 25 agencies. Purchasing cards offer significant cost savings and efficiencies to government when buying goods and services. However, as with all purchasing processes, it is important that controls are in place to ensure purchases are appropriate. We examined more than 3 000 transactions totalling \$2.15 million.

I would like to express my appreciation to the agencies involved in these examinations for the assistance and cooperation offered to my staff in conducting their work.

Preliminary Examination of the Royalties for Regions Program

Overview

Royalties for Regions is a key funding commitment of the State Government. Cabinet endorsed a decision on 13 October 2008 that the equivalent of 25 per cent of mining and on-shore petroleum royalty revenue will be distributed to regional Western Australia (WA) through investment in projects, infrastructure and community services. These funds are additional to those provided under regular budget programs. The value of the program in 2009-10 is \$644 million which equates to approximately four per cent of the total state budget.

Money is distributed through three funds:

- Country Local Government Fund
- Regional Community Services Fund
- Regional Infrastructure and Headworks Fund.

The Department of Regional Development and Lands (RDL) has primary responsibility for administering and coordinating the Royalties for Regions program. A variety of state and local government organisations will deliver specific projects under the three funds.

The objective of this preliminary examination was 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.

Conclusion

Three hundred and eight million dollars has been 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. RDL has made good progress in developing the framework since taking responsibility for the program in October 2008. It is also addressing some key elements of the framework which are yet to be fully implemented. These include:

- reporting requirements for funding recipients
- a single reporting management system
- an audit and evaluation framework for the program.

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.

Findings

- In July 2009, RDL established an appropriate 'Royalties for Regions Governance and Evaluation Framework'. Key elements of the framework are Memoranda of Understanding (MOUs) and agreements between RDL and delivery organisations. These define roles and responsibilities in terms of accountability and governance arrangements. They also detail support, resources, reporting, branding and delivery requirements for individual projects. A key requirement of the MOUs and agreements is that delivery organisations provide:
 - a quarterly statement of income and expenditure
 - a quarterly progress/performance evaluation report
 - an annual audited statement confirming the accuracy and fair presentation of the above reports.

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.

- Three hundred and eight million dollars has been distributed to 16 projects, all of which require MOUs or agreements. However, at 30 September 2009, RDL had not finalised MOUs and agreements with the delivery agencies for half of these projects. RDL advised that delivery organisations have 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 will 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. It has:
 - undertaken risk identification and assessment with RiskCover and considered risks at the policy level, program management level and at the funds level
 - contracted an independent consultant to develop a framework to evaluate the social impacts of the Royalties for Regions program
 - initiated reviews of the Country Age Pension Fuel Card Scheme and the Regional Grants Scheme
 - engaged an independent private sector audit firm to review the overall governance and risk management frameworks.
- We found errors in the recording and reporting of project expenditure within the Department of Local Government (DLG) 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.

What Should Be Done?

- RDL should work with delivery organisations to ensure that all outstanding MOUs are agreed and signed as a matter of priority.
- RDL should ensure recommendations from the governance and risk management framework review are addressed in a timely manner.
- All funding recipients should establish a subsidiary register of the grants for the Royalties for Regions funds, and reconcile expenditure and receipts on a regular basis to the General Ledger.

Future audit focus

We plan to follow up this preliminary examination of the Royalties for Regions program in the near future. Our focus may include, but will not be restricted to:

- the strategic management and allocation of the three sub-funds and the strategic reserve
- compliance with the Royalties for Regions legislative and governance framework
- following the dollar through delivery agencies to the point of expenditure
- an evaluation of Royalties for Regions outputs and value for money
- auditing the financial reporting of Royalties for Regions expenditure by delivery agencies
- evaluating fraud controls.

Response by Department of Regional Development and Lands

The Department of Regional Development and Lands (RDL) supports the findings outlined in the Auditor General's examination of Royalties for Regions. It is finalising arrangements to ensure mechanisms are in place to implement the Royalties for Regions Policy.

The funds are distributed on the principle that the delivery agencies have administrative, governance, reporting and auditing processes already in place. Once all resources are in place, RDL will be able to continue with a more rigorous review and auditing process to check that appropriate mechanisms are in place.

Response from the Department of Local Government

The Department of Local Government acknowledges the errors reported and has now initiated controls internally and with the Office of Shared Services, to ensure that payments are allocated to the correct cost centre and will be reported in accordance with the requirements of the Draft Memorandum of Understanding.

Background

The Royalties for Regions program is a new initiative and a key funding commitment of the State Government. On 13 October 2008 Cabinet decided that the equivalent of 25 per cent of on-shore petroleum and mining royalty revenue will be distributed to regional WA through investment in projects, infrastructure and community services. This royalty revenue is estimated at \$3.057 billion to June 2013, and equates to approximately four per cent of the total state budget.

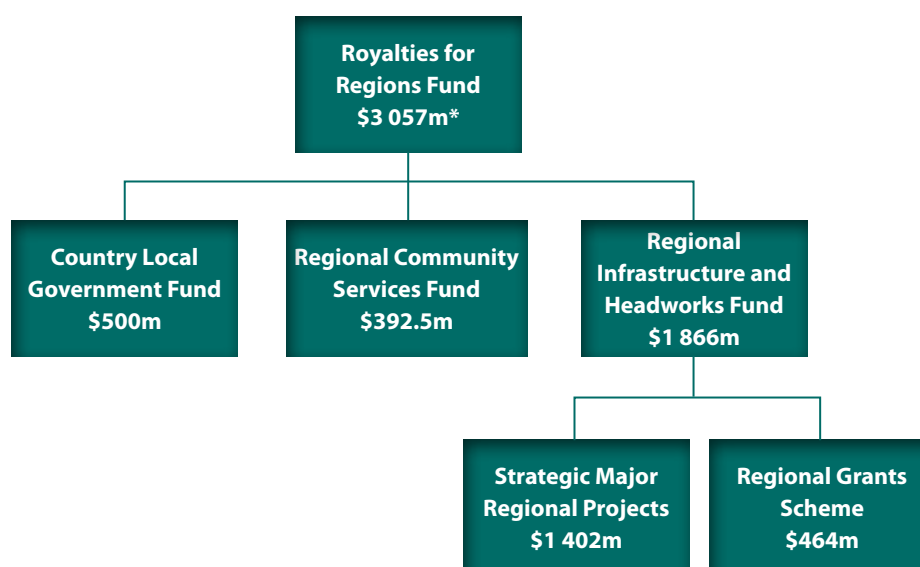
Additional staff resources and new legislation were required to fully implement the program. The Royalties for Regions Bill 2009 was introduced into Parliament in June and the resulting Act is expected to be proclaimed before the end of 2009. The Act will provide the legislative base for the operation of the Royalties for Regions Fund and establish the Western Australian Regional Development Trust. The Trust will provide independent advice on the allocation of money from the Fund. The Act will also propose that the amount of money standing to the credit of the fund at any time does not exceed \$1 billion.

Money is being distributed through three funds:

- **Country Local Government Fund.** Funding is initially provided to the Department of Local Government and to all local governments within the nine regions defined under the Regional Development Commission Act 1993. The funds must be used to:
 - address infrastructure requirements
 - improve asset management and capacity building
 - encourage standardised asset management practices and improved regional governance in local government.
- **Regional Community Services Fund.** Designed to improve access to services in the regions. Specific projects funded to date include:
 - Country Age Pension Fuel Card
 - Royal Flying Doctor Service
 - Patient Assisted Travel Scheme
 - Community Resource Centres.
- **Regional Infrastructure and Headworks Fund.** A mixture of strategic and contestable funds, accessible to both public and private organisations. It is made available through:
 - **Strategic Major Regional Projects** initially allocated to fund projects and government programs through election commitments, and also new projects which are subject to project business cases, in consultation with relevant project proponents.

- **Regional Grants Scheme** which is made up of contestable grants and a strategic reserve distributed through defined application and assessment processes, primarily distributed through the Regional Development Commissions.

The RDL has overall responsibility for administering and coordinating Royalties for Regions. The allocation of the estimated revenue available through the Royalties for Regions Fund is detailed in Figure 1.



* At 30 June 2009, total Fund included \$198.5m for new regional and state-wide initiatives which are yet to be scoped and prioritised and a \$100 million savings contribution.

Figure 1: Overview of Scheme Funding Allocation to 30 June 2013

Source: RDL and OAG

What Did We Do?

The objective of this preliminary examination of the Royalties for Regions program was 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. Areas of specific focus included:

- roles and responsibilities of government agencies
- accountability arrangements
- distribution of funds.

The examination was conducted in accordance with Australian Auditing Standards.

What Did We Find?

Roles and responsibilities

The former Department of Local Government and Regional Development (DLGRD) was given initial responsibility in October 2008 for developing a detailed accountability, governance and reporting framework for Royalties for Regions.

The Department was restructured on 1 July 2009 to form the Department of Regional Development and Lands (RDL) and the Department of Local Government. RDL was created to allow greater focus on service delivery to regional WA. It incorporates the State Land Services and Pastoral Land Services from the former Department for Planning and Infrastructure, and Regional Development and Major Regional Projects from the former DLGRD.

After reviewing a range of national and international approaches, RDL completed the 'Royalties for Regions Governance and Evaluation Framework' in July 2009. The framework establishes RDL with responsibility for managing the distribution of the Royalties for Regions funds in consultation with the Department of Treasury and Finance. RDL is also responsible for maintaining a reporting system that ensures accountable and transparent management of funding and measurement of the impacts of the program.

While RDL has overall responsibility for administration and coordination, numerous state and local government organisations are responsible for delivering specific projects under the three Royalties for Regions funds (see Table 1).

Fund	Project	Delivery Organisation
Country Local Government Fund	Local infrastructure	Department of Local Government and 110 country local governments
	New regional infrastructure assets	Department of Local Government & Regional Organisations of Councils
	Capacity building	Department of Local Government
Regional Community Services	Country Age Pension Fuel Card	Department of Transport
	Bush Change Housing Grant	RDL
	Royal Flying Doctor Service	Department of Health
	Patient Assisted Travel Scheme	Department of Health
	Regional Workers' Incentive	Department of Housing
	Boarding Away From Home	The former Department of Education and Training
	Community Resource Centres	RDL & 104 Community Resource Centres
Regional Infrastructure and Headworks Strategic Major Regional Projects	Exploration Incentive Scheme	Department of Mines and Petroleum
	Pilbara Revitalisation Plan	RDL, Department of Health, Office of Energy, Horizon Power, Pilbara Development Commission and local governments (Shire of Ashburton, Shire of Roebourne, Shire of East Pilbara, and Town of Port Hedland)
	Bunbury – Albany Gas Pipeline	Western Power
	Regional Airport Development Scheme	Department of Transport
	Housing for Workers	Department of Housing, Landcorp
	Northern Town Development Fund	Landcorp
	Pre-Feasibility Pilbara and Gascoyne Food Bowl	RDL
	Nickol Bay Hospital	WA Country Health Service
	Kalgoorlie Regional Hospital	WA Country Health Service
	Albany Hospital	WA Country Health Service
Regional Grants Scheme	Regional Grants Scheme	Nine Regional Development Commissions

Table 1: Delivery organisations for Royalties for Regions projects

Source: RDL and OAG

Accountability arrangements

Prior to the establishment of the Royalties for Regions legislation, a Treasurer's Special Purpose Account was established under section 10(a) of the Financial Management Act 2006. The Under Treasurer is the custodian of the funds on behalf of Parliament and the Treasurer. Funds are appropriated at the start of each financial year and drawn upon through normal Cabinet processes.

Because the implementation of the Royalties for Regions program represented new activity for the former DLGRD, and was an immediate priority of the government, interim processes for distribution of funding were established. These included:

- all initiatives had to receive Cabinet approval prior to funds being disbursed
- all disbursement of funds had to be approved by DLGRD (now RDL) in collaboration with the Department of Treasury and Finance.

Funds have been distributed on the principle that delivery agencies have administrative, governance, implementation, reporting and auditing processes already in place in accordance with Financial Management Act 2006 obligations.

RDL is responsible for developing and maintaining a standardised implementation and reporting framework to enable it to review the financial performance of funded initiatives and projects. Since October 2008, efforts have focused on formalising the governance and risk management framework. A draft reporting template was developed and incorporated into interim Memoranda of Understanding (MOUs) and Financial Assistance Agreements which were forwarded to delivery organisations in July 2009.

The MOUs and agreements were developed with State Solicitors' assistance and are key controls underpinning the implementation of the Royalties for Regions program. They define roles and responsibilities in terms of accountability and governance. The MOUs require all projects receiving Royalties for Regions funding to use the state logo and the Royalties for Regions branding and logo. They also detail support, resources, reporting and delivery requirements for individual projects. A key requirement of the MOU and agreements is that delivery organisations should provide:

- quarterly statements of income and expenditure
- quarterly progress/performance evaluation reports
- annual audited statements certifying the above reports.

The first quarterly reports are required for the period to September 2009. These reports will be the first formal acquittal of project finances and progress reports to date.

Three hundred and eight million dollars has been distributed to 16 projects which require MOUs or agreements to be in place. However, as at 30 September 2009, RDL had not finalised MOUs and agreements for half of these projects. RDL advised that delivery organisations had concerns over the reporting and auditing requirements in the MOUs. RDL is withholding further disbursement of funds until the MOUs are signed. It expects all MOUs to be finalised by the end of 2009.

We also found that RDL is acting to review and, where necessary, improve the accountability, governance and reporting frameworks for Royalties for Regions. Specifically, it has:

- undertaken risk identification and assessment with RiskCover, considering risks at the policy level, program management level and the funds level
- contracted an independent consultant to develop a framework to evaluate the social impacts of the Royalties for Regions program
- initiated reviews of two projects:
 - Country Age Pension Fuel Card Scheme
 - Regional Grants Scheme
- had the overall governance and risk management frameworks reviewed by an independent private sector audit firm.

Distribution of Royalties for Regions funds

In 2008-09, \$334 million was allocated to Royalties for Regions under the authority of the Treasurer's advance, invested through the WA Treasury Corporation Act 1986. Three hundred and eight million dollars was drawn down from the Department of Treasury and Finance and distributed to the relevant delivery agencies. Twenty-six million dollars remained in the Special Purpose Account. The first funds were drawn down on 8 May 2009. We found that money was distributed in accordance with the high level objectives and eligibility criteria of the funds and projects we reviewed.

Of the \$308 million, RDL estimated that by 30 June 2009 \$190.2 million had been spent with a further \$26.6 million committed as liabilities. RDL also estimated that delivery agencies will carry over \$91.2 million into 2009-10. These estimates are based on Department of Treasury and Finance journals. RDL is currently finalising these figures and is preparing a submission to carry over unspent funds from 2008-09. At 1 October 2009, no further money had been drawn down from the Special Purpose Account.

Country Local Government Fund (CLGF)

Five hundred million dollars has been allocated to the CLGF to 30 June 2013. This is made up of \$306.25 million to go directly to local governments, \$181.25 million to go to regional groupings of councils and \$12.5 million to the Department of Local Government (DLG) for capacity building.

DLG has day-to-day responsibility for managing the fund and reporting to RDL. The fund is intended to provide country local governments with additional money for infrastructure provision and renewal. The capacity building component is intended for projects that strengthen regional governance and improve asset management. Figure 2 outlines the proposed allocation of the CLGF.

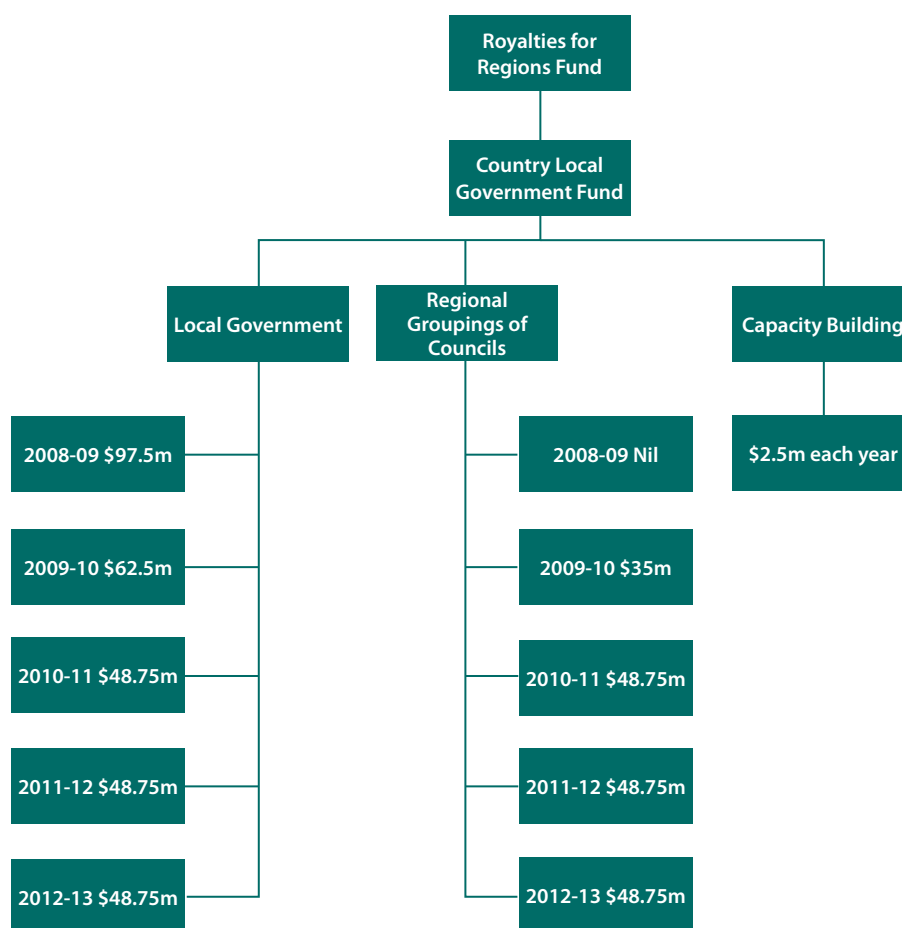


Figure 2: Planned Allocation of CLGF

Source: RDL and OAG

In 2008-09, \$97.5 million was distributed to 110 country local governments in two equal instalments. The local government allocations for 2008-09 were based on the following formula:

- \$172.50 per capita subject to a minimum payment of \$400 000 and capped at \$900 000
- the balance of funds was allocated to each local government based on their 2007-08 share of local government grants as determined by the WA Local Government Grants Commission.

We found that this formula had been applied consistently across all local governments.

The former DLGRD wrote to local governments on 15 January 2009, advising of their allocation. The letter contained guidelines and an acceptance form which set out the requirements to access the funds.

The acceptance form required local governments to list their priority projects and the funding required for each project to the total of their allocation. They were also required to agree to a number of conditions including:

- that moneys are a tied contribution for infrastructure renewal and/or new infrastructure projects
- expenditure will be allocated to the classes of infrastructure and buildings identified in the Local Government Accounting Manual
- reports will be lodged with DLG in accordance with the fund guidelines
- subsequent payments will not be made until DLG has received satisfactory reports
- annual audit statements by the local government's auditor will include confirmation that CLGF funds have been allocated as reported in the acceptance form.

Local governments were advised that if they did not adhere to these conditions they may be excluded from future distributions from the CLGF.

Our testing showed that first instalment payments were made between May and June 2009 on receipt of acceptance forms. To receive the second instalment, local governments had to provide an interim acquittal report demonstrating that the first instalment of funds had been fully allocated. All second instalments have been approved and the vast majority have been paid to local governments.

We also found that no payments were made prior to receipt of acceptance or interim acquittal reports. However, we noted that the two instalments were made in quick succession and in many cases local governments had yet to spend any money on their priority projects when they received the second instalment.

DLG should receive audited final acquittal reports for the entire year one grant allocation from country local governments by 30 November 2009. Until then, it will not know how much money has actually been spent by local governments. We note that DLG plans to conduct sample audits and is empowered to investigate for non-compliance under the Local Government Act 1995.

Of the \$2.5 million set aside for capacity building in 2008-09, DLG initially reported to Treasury that \$0.78 million was spent and that \$1.72 million should be carried over into 2009-10. However, we found that DLG had incorrectly booked \$0.51 million of unrelated costs against this project.

The existence of incorrect bookings to the capacity building fund and the delay in DLG identifying and rectifying the errors raises some concerns. DLG and all funding recipients should establish a subsidiary register of the grants for the Royalties for Regions funds, and reconcile expenditure and receipts on a regular (monthly) basis to the General Ledger.

Regional Community Services Fund (RCSF)

\$392.5 million has been allocated to the RCSF up to 30 June 2013. The RCSF funds projects and government programs to improve regional access to a range of community services and to overcome disadvantages of remoteness. RDL manages the RCSF in consultation with the Department of Treasury and Finance and delivery agencies.

Table 2 details the allocation of the RCSF up to 30 June 2013. It also details the draw down from the RCSF and RDL's estimated actual spend in 2008-09 for projects that have been initiated. The remaining projects have not yet been initiated.

Project	Allocation up to 30 June 2013	Draw Down	Actual Spend in 2008-09
Country Age Pension Fuel Card	\$80m	\$4.786m	\$1.272m
Royal Flying Doctor Service	\$32.9m	\$5.674m	\$5.674m
Patient Assisted Travel Scheme	\$40.1m	\$4.174m	\$4.174m
Community Resource Centres	\$54m	\$4m	\$2.13m
Bushchange Housing Grant	\$110m		
Regional Workers' Incentive	\$67.4m		
Boarding Away From Home	\$8.1m		
Total	\$392.5m	\$18.634m	\$13.25m

Table 2: RCSF allocation, draw down and expenditure up to 30 June 2009

Source: RDL and OAG

Our examination included a review of the high level governance arrangements for the Country Age Pension Fuel Card (CAPFC). The CAPFC policy and program was endorsed by Cabinet on 6 April 2009 and commenced on 1 May 2009. It is allocated \$80 million up to 30 June 2013.

Recipients of an Age Pension from Centrelink or the Department of Veterans' Affairs and who are residents of a country local government (excluding the Shire of Serpentine-Jarrahdale and the City of Mandurah) are eligible for a CAPFC. Eligibility is restricted to one card per couple.

The CAPFC allows \$500 expenditure on fuel and taxi travel by, or on behalf of, the cardholder over a 12 month period. Each card expires on 30 June annually. Cards cannot be reloaded and will be re-issued annually if eligibility of the cardholder remains valid. Both the fuel card and the pensioner concession card must be presented at the point of sale. Although there is some opportunity for misuse of these cards, the required controls are adequate given the flexible objectives of the program.

At 31 August 2009, RDL report that \$4.786 million was drawn down and allocated to the scheme. A total of 25 427 cards had been issued and \$4.6 million had been spent on fuel and \$140 000 spent on taxis.

While RDL has primary responsibility for the CAPFC, it is implemented by the Department of Transport under an inter-agency agreement signed on 2 October 2009. Funds for the CAPFC remain within RDL. The Department of Transport recoups the cost of administering the scheme on provision of tax invoices to RDL.

Applications for the CAPFC are processed by regional Australia Post offices and the information is transmitted to the Department of Transport's licensing division to populate the scheme's data base and facilitate issue of the card to eligible age pensioners.

We found that the RDL has effective systems in place to manage, monitor and report CAPFC expenditure. These include:

- the inter-agency agreement between the departments which facilitates cooperation between the parties in implementing the scheme, including contract management
- budget management throughout the term of the scheme
- receipt of monthly recoup tax invoices from the Department of Transport that detail the full cost of administering the scheme (contractor fees and administration costs)
- the approval of all recoup payments.

RDL has commenced a review of year one of the CAPFC. The review process involves:

- an interagency steering group
- literature review and analysis of additional pension categories and cost benefit analysis assessment for inclusion
- consideration of submissions from excluded country local governments
- consultation with peak seniors and welfare groups.

It also plans to complete a fuel card usage audit by November 2009.

Regional Infrastructure and Headworks Fund (RIHF)

\$1 866 million has been allocated to the RIHF up to 30 June 2013. RDL manages the disbursement of the RIHF in consultation with the Department of Treasury and Finance and respective delivery agencies. The RIHF comprises two components and is a mixture of strategic and contestable funds, accessible to public and private organisations. Its main focus is to support projects that are of strategic importance to the state, apply broadly across a region, and do not fall neatly to a state government agency or local government for implementation.

The RIHF was established to fund strategic major regional projects and government programs which received Cabinet approval. New projects will require Cabinet approval subject to the development of a project business case.

Table 3 details the allocation of the RIHF up to 30 June 2013. It also details the draw down from the RIHF and actual spend reported by RDL in 2008-09. The remaining projects which were allocated funds in 2008-09 have not yet been initiated.

Project	Allocation up to 30 June 2013	Draw Down	Actual Spend in 2008-09
Exploration Incentive Scheme	\$80m	\$1.9m	\$1.9m
Ord – East Kimberley Expansion Project	\$220m	\$7m	\$1.084m
Pilbara Revitalisation Plan	\$300m	\$115m	\$80m
Regional Airport Scheme	\$22m	\$0.46 m	\$0.46m
Housing for Workers	\$609.71m	\$20m	\$20m
Housing for Workers – South Hedland Town Centre Revitalisation	\$23.3m	\$4.2m	\$0.105m
Pre-feasibility Pilbara/Gascoyne	\$0.5m	\$0.5m	\$0.164m
Regional Grants Scheme	\$372.96m	\$39.96m	\$1.204m
Regional Grants Scheme – Strategic Reserve	\$91.08m	\$0.4m	nil
Nickol Bay Hospital	\$10m	\$0.4m	\$0.4m
Kalgoorlie Hospital	\$15.46m		
Albany Hospital	\$60.9m		
Northern Town Development Fund	\$40m		
Bunbury to Albany Gas Pipeline	\$20m		
Total	\$1 865.91m	\$189.82m	\$105.317m

Table 3: 2008-09 RIHF Draw Down and Expenditure

Source: RDL and OAG

Prior to any funds being disbursed, all delivery agencies and non-government organisations should have signed MOUs or Financial Assistance Agreements which include an acknowledgement that RIHF funding is to be used in accordance with the fund's objectives. Although we found that a number of MOUs and Financial Assistance Agreements had been signed, a significant number of MOUs had not, and some projects were being managed under interim arrangements and draft MOUs. The first quarterly status reports on project and program delivery are due at the end of September 2009.

We reviewed the high level governance arrangements for the Regional Grants Scheme, which is managed and administered through the Regional Development Commissions with support from RDL. We chose this project because of the significant increase in funding directed through the Commissions. Table 4 details the allocation to the Regional Grants Scheme to 30 June 2013.

Approximately 78 per cent of Regional Grant Scheme funds can be allocated to contestable grants, 20 per cent maintained as a strategic reserve to support key regional projects and up to 2.5 per cent can be used to cover additional administration costs associated with Royalties for Regions.

	Year 1 2008-09	Year 2 2009-10	Year 3 2010-11	Year 4 2011-12	Year 4 2012-13	Total
Regional Grants Scheme	\$39.96m	\$63m	\$90m	\$90m	\$90m	\$372.96m
Regional Grants Scheme – Strategic Reserve	\$0.04m	\$10m	\$19.341m	\$21.7m	\$40m	\$91.081m

Table 4: Regional Grant Scheme Allocation to 30 June 2013

Source: RDL and OAG

For the first round of grants, Regional Development Commissions forwarded lists of proposed grant recipients to RDL. Year one allocations totalling \$39.96 million were distributed to the nine Regional Development Commissions (\$4.44 million each) in two instalments in May 2009.

Cabinet approved the list of recipients on 28 June 2009. In total, 322 applications were approved to a total value of approximately \$32.4 million. By 30 June 2009, the nine Regional Development Commissions had spent \$1.2 million of the year one allocation and the majority of this was spent on scheme administration. RDL advised that Regional Development Commissions are now distributing the grants to approved recipients. However, it cannot report progress until the Commissions deliver quarterly reports, due in September 2009.

The overall accountability of the Royalties for Regions program depends on all funding recipients being able to clearly identify what money has been used for what purposes. However, we noted some inconsistency in how Regional Development Commissions had treated Royalties for Regions funds in their accounts:

- RDL identified that one Commission had used an inappropriate accounting treatment for funds received under this program. The Commission had incorrectly reported that it had spent nearly all its first round grant allocation (\$3.5 million). In fact, it had only allocated funding to approved grants recipients but had not actually paid any money to them. This error has since been rectified.

- During our regular financial assurance audit work we identified an issue at another Commission relating to quarantining Royalties for Regions funds from other operational funds. This matter is still being resolved.

Notwithstanding these matters, we consider that the high level governance framework for the Regional Grants Scheme is appropriate.

RDL has commissioned an independent private sector audit firm to review the Regional Grants Scheme. The review will assess governance, accountability, and probity mechanisms, the transparency of decision-making and the accessibility of the grants scheme. It will also assess risk management and risk mitigation including fraud and corruption risks. The review will also evaluate the adequacy of controls, identify any gaps and provide advice on additional governance if it is required. It will include all nine Regional Development Commissions over the next three to four months.

Potential issues or risks

Our high level review identified the following areas of concern that should be addressed as a matter of priority:

- half of the MOUs that should be in place have yet to be finalised despite money being disbursed
- organisations may not have established relevant subsidiary accounts to accurately acquit and report expenditure and receipt against the Royalties for Regions funds or projects.

In addition, the governance and risk management review commissioned by RDL and reported in September 2009 made the following observations:

- RDL needs to develop a clear framework for managing funding allocations in light of the uncertainties that surround the amount of funding available from royalties income and therefore the Program
- reporting requirements provided to funding recipients require further definition and should be considered in light of a single reporting management system that has yet to be formally established
- an audit and evaluation framework still needs to be developed for the program
- a more formalised process needs to be developed for the assessment and approval of funding for new state-wide and regional initiatives funding
- RDL needs to develop and implement a fraud control strategy
- the current risk management plan requires review to ensure accurate and appropriate controls have been identified. An implementation plan needs to be developed to embed risk management requirements for RDL.

We note that RDL has established an implementation plan to address issues raised by the review. They aim to address all issues by June 2010.

Accountability for Government Grants

Overview

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.

This is our sixth examination of grants administration in the past 10 years. This examination differed from those of the past in that it reviewed not only the relevant administrative arrangements of the funding agencies, but also those of the grant recipients. This new approach was made possible by 'follow the dollar' powers provided by section 18(2)(c) of the Auditor General Act 2006. This section provides the Auditor General with the power to carry out an examination or investigation of any matter relating to public money.

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), which recently split to form the Department of Education and the Department of Training and Workforce Development. We also examined 15 organisations that received grants from these three agencies. Appendix 1 (page 33) lists the recipient organisations.

We assessed whether the agencies had appropriate accountability arrangements for administering grants, and whether recipient organisations could account for the funds they received.

Conclusion

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 has 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.

Key Findings

- 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. In particular, it:
 - did not have appropriate policies or procedures in place to provide consistent and reliable management of grants
 - could not collect relevant information about its grants or grants programs
 - did not adequately monitor and evaluate its grants administration, individual grants, and grant programs.
- 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 their risk management strategy
 - improving their internal management reporting on progress in relation to grants.

What Should Be Done?

Agencies should:

- implement accountability arrangements for grants that are commensurate with the level of risk involved
- ensure that grant recipients have arrangements in place to:
 - report to their Boards on their progress with meeting funding conditions and achieving grant outcomes
 - introduce formal risk management strategies that identify loss of grant funding and fraud as key risks
- monitor the administration of grants in recipient organisations to identify and resolve problems in a timely manner.

DET should:

- ensure that its recently developed policies and procedures for grants administration are implemented across the Department
- monitor compliance with its policy and procedure
- capture information about grants and grant programs that can be analysed to:
 - assess compliance with policy and best practice
 - evaluate and improve performance.

Response by Healthway

Healthway has welcomed the opportunity to participate in this Office of the Auditor General examination. Healthway commissions regular independent reviews and evaluations of its grant and sponsorship programs through a specialist unit based at UWA and recognises the value of independent evaluation and ongoing improvement.

In late 2008, the Healthway Board commenced a process of scoping a proposal for a review of its grant and sponsorship programs examining areas such as accountability requirements, assessment processes, grant and sponsorship management practices and other administrative issues. In June 2009, the Board approved a plan to undertake this detailed review which is due for completion in early 2010.

We are able to conclude that the auditors' comments made in this report regarding opportunities for improvement for Healthway are, in the main, reflected in the review currently underway.

Response by Department of Sport and Recreation

The Department of Sport and Recreation (DSR) acknowledges the findings of the OAG. DSR endeavours to regularly update and streamline its processes to increase efficiency, accountability and client service. The findings will assist in the review process. DSR would like to thank the OAG for including DSR in the review.

Response by Department of Education and Training

The Department of Education and Training acknowledges that the devolved model of grant administration did not have adequate risk management and reporting mechanisms in place, and has implemented strategies to address these issues. The examination has further focused our intention to provide stronger controls particularly for maintaining performance evaluation and achievement of outcomes of grants in the Department.

Background

Healthway, DSR and DET are three of many WA public sector agencies that provide grant funding. Table 1 shows a breakdown of grants made by these agencies in 2006-07. We selected grants from this year so that all moneys would have been fully expended and acquitted by recipients at the time of our audit. In 2006-07, the three agencies provided over 1700 grants valued in excess of \$74 million.

Healthway provides grants for health promotion projects and research projects related to health promotion. It also sponsors a range of organisations to promote healthy messages at arts, sports and racing events and activities. The provision of funding is core business for Healthway, and in 2006-07 it approved 845 grants and sponsorships.

DSR provides grants to sporting organisations and individuals involved in sport and recreation to enhance industry, organisational and people development, infrastructure, participation and high performance. In 2006-07, DSR approved 605 grants.

DET provides grants for a wide range of purposes relating to education, training and employment. Programs in 2006-07 included the Employment Directions Network and the Aboriginal Education, Training and Employment Officer Program. During this period, DET approved 259 grants.

Grants Programs	Total Funds Approved (2006-07)	Total Grants Provided (2006-07)
Healthway		
Health promotion grants	\$3 394 295	67
Health research grants	\$2 044 899	35
Sports, Arts and Racing Sponsorships	\$9 593 945	743
Department of Sport and Recreation		
Capital works (sporting facilities)	\$10 528 249	101
Programs for industry and people	\$18 144 090	504
Department of Education and Training		
All grants and programs	\$30 500 366	259
Total	\$74 205 844	1709

Table 1: Grants programs and grants assessed and awarded in 2006-07

In November 2002, the Government policy 'Funding and Purchasing Community Services' took effect. The policy was developed by a working party with representatives from the not-for-profit sector and government agencies. The express aim of the policy is to promote "flexibility, innovation and community responsiveness in the funding and purchasing of services..." by government agencies.

The policy defines a grant as a financial assistance arrangement or contribution provided by a public authority to an organisation for a discrete purpose and period. A sponsorship is a form of grant, typically provided for promotion of a public interest message in support of an event or program. A service agreement is an agreement for the purchase of community services by a public authority.

What Did We Do?

Our objective was to determine whether there was appropriate accountability for the funding public sector agencies provide to other organisations through grants and sponsorships.

Specifically, we examined whether:

- the public sector agencies:
 - had appropriate administration, planning and evaluation for grants
 - established appropriate accountability arrangements for the grants they provided
- 15 sampled recipient organisations were able to account for:
 - their grant expenditure
 - their achievement of grant objectives or outcomes.

The examination focused on grants that were approved by agencies in 2006-07. That year was chosen so that the grants we examined were fully completed and acquitted.

At each public sector agency we examined four key stages of grants administration – planning, assessment, monitoring and evaluation. We also tested a sample of individual grants, all valued over \$30 000, to see what accountability conditions were applied. We did not examine Healthway's health promotion research grants, or DSR's grants program for capital works.

At the grant recipient organisations we examined whether the grants had been spent for the intended purpose and whether the recipients had governance processes and controls that enabled them to account for their grant expenditure and performance.

The examination was conducted in accordance with Australian Auditing Standards.

What Did We Find?

Healthway and DSR adequately administered their grants

We found that Healthway and DSR had planning, assessment, monitoring and evaluation processes that contributed to an appropriate level of accountability for their grant and sponsorship programs. Nevertheless, opportunities existed for both agencies to improve monitoring of recipient organisations' performance, and for DSR to improve evaluation of its overall grants programs.

Planning and Assessment

Healthway and DSR undertake grant and sponsorship planning as part of their organisational strategic planning. Both agencies consulted stakeholders in the development of their strategic directions plans, and have aligned their grant and sponsorship programs with these plans. This approach helps ensure that grant and sponsorship programs are focused on meeting the needs of the both the agency and potential funding recipients.

Healthway and DSR also had fair and equitable processes for assessing the applications for grants and sponsorships, ensuring that funds are directed to those organisations that can demonstrate an ability to achieve desired outcomes. Their application forms included clear eligibility and selection criteria and there was a separation of duties between the assessment and approval of applications.

During the audit period, neither agency consistently documented assessments of grant applications against their selection criteria, which meant selection decisions were difficult to compare. However, DSR now uses templates linked to criteria to record their assessments. Healthway has recently reviewed its sponsorship program and plans to implement changes in this area.

Monitoring

Healthway could improve the way it monitors the performance of their grant and sponsorship recipients against agreed objectives.

Healthway contracts a range of sponsorship support organisations to assist their sponsorship recipients to promote agreed health messages and monitor their performance. For example, it contracts the Cancer Council of Western Australia to assist sponsorship recipients to promote the 'Go for 2&5' healthy eating message. The sponsorship support organisations were only required to report back to Healthway when something went wrong. This means Healthway itself had only limited information on how sponsorship recipients were performing.

DSR demonstrated good practice in the way it monitored the performance of organisations that received grants under the Organisational Sustainability Program (OSP).

DSR provide OSP grants to assist sporting associations and peak recreation organisations improve their governance and management practices and overall sustainability. Each year, DSR and grant recipients work together to develop quarterly targets for the OSP grants. DSR officers then meet with the recipients every three months to ensure they are on track to meet agreed outcomes and deliverables. This enables DSR to offer additional support or intervention in a timely manner. Some organisations told us that the regular meetings with DSR assisted them to identify problems and manage their performance.

Evaluation

We found that Healthway and DSR had strong systems for evaluating their individual grants and sponsorships, to ensure they were achieving the outcomes they intended.

Healthway used a range of evaluation techniques for its grants and sponsorships, including self-assessments by grant and sponsorship recipients, assessments by contracted sponsorship support organisations, and independent evaluation of major sponsorships by an external expert in health promotion evaluation.

To evaluate its grants, DSR checks whether the recipient has achieved the objectives required under the grant agreement. DSR requires recipients to provide evidence that all specified tasks and initiatives are complete. We found that DSR had assessed recipients' performance for all the grants we reviewed.

However, DSR did not have any clear criteria for determining which grant programs should be evaluated or when. We noted that they had evaluated some of their larger grant programs in recent years. A more strategic approach would guide the timing of the evaluations and may also help determine whether the overall grant program is providing value for money.

DET had not adequately addressed the risks associated with devolved grants administration

The administration of grants within DET is devolved to individual business units rather than being centrally controlled or coordinated. Such devolution is a reasonable approach for an agency as large and diverse as DET. However, unless it is adequately controlled and monitored, it increases the risk that:

- grants administration may become inconsistent
- grant programs will not contribute to DET objectives
- grant selection processes will not be equitable
- grant recipients' performance will not be adequately monitored
- grants and grant programs will not be evaluated.

To manage the risks associated with devolved administration, we expected to see:

- clear policies and procedures to ensure consistent and reliable management
- the ability to aggregate information for management analysis and decision making
- a program for monitoring and evaluation of both grants and grants administration.

In 2006-07 DET did not have adequate controls in these areas. It did not have any policies, procedures or guidelines to direct how grants should be administered. Nor could it provide information on its grants or programs without tracing the history of individual grant payments for 259 grants. DET had identified grants as a high risk area, but relied solely on internal audit to monitor their administration. This did not compensate for the inadequate management controls in place at this time.

In August 2007, DET implemented a comprehensive Provision of Grants Policy which provides guidance and instruction to grants administrators on best practices in grants administration, including the issues outlined above.

At the beginning of the 2009-10 financial year, DET adopted new procedures for grants administration. These procedures will enable the creation of a grants register which will facilitate compliance monitoring, evaluation and management reporting.

If these changes are implemented and effectively monitored, DET should significantly improve the assurance it can obtain about its grant programs.

There are opportunities for agencies to improve the accountability arrangements for the grants they provide

We tested a sample of individual grants at each of the three agencies to assess whether they had appropriate accountability features. We expected to find that:

- formal agreements/contracts were in place for all grants, so that terms and conditions of funding were clear and enforceable
- agreements were signed by an officer with the correct authority, to prevent the release of unauthorised funds
- agreements contained a clause to require recipients to only expend funds for a clear approved purpose
- there were remedies for non-compliance with the agreements, so that funding conditions could be enforced
- there were appropriate financial and performance requirements, to enable agencies to evaluate the success of grants and programs
- agreements enabled agencies to recoup unspent funds when appropriate, to reduce the risk of waste of public money.

We found that generally the grants had these accountability features in place (see Table 2). However, we did find weaknesses in the arrangements for some grants:

- DET paid a grant of \$920 663 to one organisation without implementing an agreement. This was a long-standing, historical funding arrangement. Despite the lack of a contract, DET did ensure the recipient spent the grant on the intended purposes. DET has now introduced a contract for the funding
- 12 of 30 agreements at DSR and 13 of 32 agreements at DET were signed by departmental officers without delegated authority. DSR identified the problem in 2008 and updated their delegations manual
- 12 of 32 of DET's grant agreements did not contain any remedies for non-compliance with the conditions in the agreement
- 15 of 32 grant agreements at DET did not require audit-certification that funds had been used for the approved purpose. DET did not have rules setting out when audit-certification was required
- Healthway required the same detailed expenditure reporting for both sponsorships and grants, despite the inherent differences in these funding arrangements.

Grant and sponsorship administration and reporting can be a significant burden for funding recipients so it is important that agencies ensure their reporting requirements are commensurate with the type and level of funding provided. Sponsorships should have less onerous financial reporting requirements than grants. This is because sponsorships simply assist organisations to hold events at which they can then promote a specific message.

Funding agencies are not expected to have direct input into how the sponsorship is actually spent. In contrast, grant recipients are expected to expend their funds only on an approved project, so they should be able to provide sufficiently detailed expenditure reports.

Accountability feature	Healthway	DSR	DET
Agreement in place (legal contract)	✓	✓	✗
Agreement signed with correct authority	✓	✗	✗
An approved funding purpose is clearly identified	✓	✓	✓
Funds only to be used for approved purpose	✓	✗	✓
Remedies for non-compliance	✓	✓	✗
Appropriate financial reporting	✗	✓	✗
Appropriate performance reporting	✓	✓	✓
Agency able to recoup unspent funds	✓	✓	✓

Table 2: Adequacy of accountability conditions that agencies implemented for grants

Five types of weakness were evident in the accountability agreements across the three agencies.

Grant recipients could account for both their grant expenditure and achievement of grant objectives

A key part our examination involved looking at a sample of organisations that received grants from Healthway, DSR and DET to assess whether they had spent the funds they received for the purposes intended. We also examined whether they demonstrated better practice in a range of governance and management areas that can affect their ability to manage grant funding. We examined five grant recipients from each agency. These organisations ranged from small voluntary sporting bodies with no paid staff to large charities with millions of dollars in annual turnover.

We assessed whether the organisations had implemented a number of key governance and management practices to assist them to account for their grant funds and their performance. We checked whether the organisations:

- were independently audited by a qualified accountant
- used internal financial and progress reports to manage performance
- ensured their external performance reports were evidence-based
- had key expenditure controls and documented accounting procedures
- had rules for managing conflicts of interest
- managed key risks including loss of grant funding and fraud.

Figure 1 shows the outcomes against these criteria across the 15 organisations.

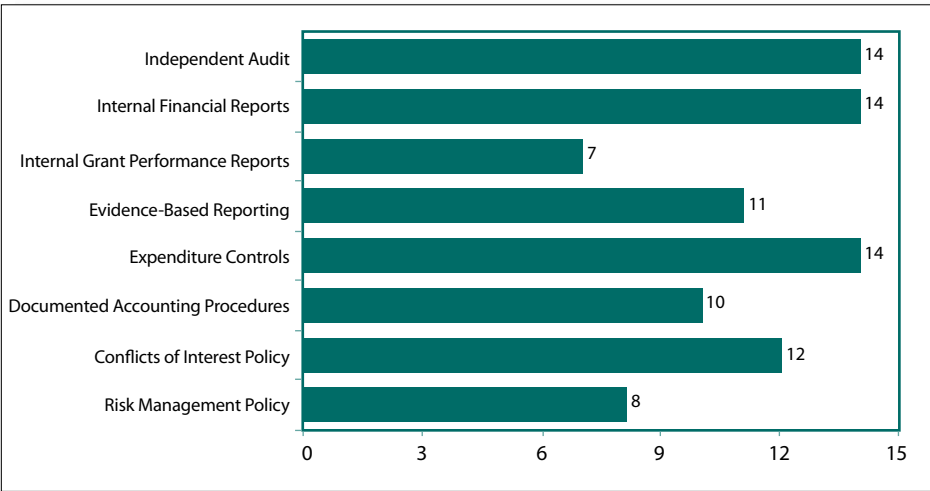


Figure 1: Number of organisations that had implemented specific governance and grant management practices

Internal management reporting, risk management and documented accounting procedures were the governance areas most in need of improvement amongst the 15 grant recipient organisations we examined.

One organisation could not provide us with any of the information we sought for 2006-07. During that period it faced a range of serious internal governance problems, resulting in deficient management practices and poor quality records. The agency that provided a grant to this organisation in 2006-07 was aware of this situation. The grant was given on the condition that the organisation improved its governance. The agency monitored the organisation's progress and intervened where necessary. The organisation was able to demonstrate that it now has the required key governance and management practices in place.

The other 14 organisations had implemented most of the governance and management practices we expected to see. These practices enabled the organisations to demonstrate that they were accountable for their grant expenditure and performance.

All 14 organisations had their financial statements independently audited by a qualified accountant each year, and reported regularly to their Board on their financial position throughout the year. They also had key expenditure controls, such as requiring two signatures on cheques and a separation of duties for incurring and approving expenditure. These practices assist organisations to prevent unauthorised expenditure.

However, we did identify some areas which could be improved:

- seven organisations did not formally report to their Board on progress towards meeting grant objectives. As the entity ultimately accountable for an organisation, it is important that the Board is informed of progress towards meeting agreed funding conditions and reporting obligations. Seven organisations were able to demonstrate satisfactory internal progress reporting mechanisms
- six organisations did not have a formal risk management strategy that identified key organisational risks, including fraud and loss of funding if they fail to meet grant conditions. It is important for organisations to acknowledge these risks and formally decide on appropriate strategies to mitigate them. Eight did so in a satisfactory manner.

We also found that:

- three organisations had not kept records to demonstrate some of the specific achievements that they reported to the funding agency. However, they were able to provide evidence to demonstrate that the grants had been used for their intended purpose
- four organisations did not have documented accounting procedures
- one organisation did not have a formal strategy for identifying and managing conflicts of interest.

Appendix 1: Recipient organisations we examined

Badminton WA
Cancer Council of Western Australia
Clontarf Foundation
Equestrian Western Australia
Extra Edge Community Services
Family Planning WA
Italo-Australian Welfare and Cultural Centre
Joondalup Youth Support Services
Pony Club Association of WA
Rural Health West
School Volunteer Program
Skate WA
Softball WA
Western Australian Music Industry Association
Western Australian Sports Federation

Management of Government Purchasing Cards

Overview

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 appropriate precautions. This is particularly relevant given some recent cases of reported misuse of purchasing cards.

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.

We previously examined this area in 2004.

Conclusion

Control 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 purchasing cards being misused.

The most common areas of non-compliance with required procedures were in providing evidence to support transactions, and in acquitting and certifying purchases.

Key Findings

- Three agencies had good policies and were managing their cards well. They were the East Perth Redevelopment Authority, the Public Trustee and the Western Australian 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 entertainment transactions lacked sufficient documentation to support the business nature of the expenditure. These types of transactions represent less than 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.

What Should Be Done?

- All agencies should periodically review their purchasing card policies and procedures to ensure that they reflect good practice and government guidelines. Focus should be given to:
 - ensuring entertainment or hospitality related expenditure is properly supported to show that it was for official business purposes
 - the requirement that supervisors certify purchasing card expenditure. Appropriate oversight arrangements should be made for purchases by senior staff
 - dealing with the purchasing cards of staff on extended periods of leave.

Background

The Western Australian Government purchasing card offers significant benefits to departments and agencies, suppliers and the environment. It can reduce costs and streamline business processes associated with authorising, tracking, purchasing, payment and reconciling agency purchases. It also can significantly reduce the use of paper. The Department of Treasury and Finance (DTF) estimates that using a purchasing card offers an average saving of \$35 per transaction.

However, if not managed correctly, potential does exist for improper or unauthorised expenditure. Fraudulent use of purchasing cards has occurred in both the private and public sectors in recent times. As such, agencies should ensure appropriate controls are in place and be continually vigilant against misuse.

Our last examination of purchasing cards in 2004 found that controls over the use of cards were adequate and no unauthorised use was disclosed. However, we identified a number of minor breaches of policies and guidelines, and recommended that agencies should ensure that cardholders understood and complied with the controls over the use of purchasing cards.

The State Government has a procurement strategy to significantly increase the proportion of government purchases made by purchasing cards by 2010. The strategy includes:

- increasing the number of purchasing cards to 15 000
- using purchasing cards to replace \$400 million of invoiced transactions
- a target of 80 per cent of transactions less than \$5 000 to be paid by purchasing card
- removing barriers to the wider adoption of purchasing cards.

Each year the public sector makes more than 1.5 million purchases of goods and services that are valued at less than \$5 000. These represent 90 per cent of total purchases and about 10 per cent of total government spend.

What Did We Do?

The examination assessed whether there are adequate controls over the management of government purchasing cards. In particular we focused on whether:

- agencies had appropriate administrative systems to manage purchasing cards
- agencies adequately controlled access to purchasing cards
- purchasing cards were used appropriately
- agencies periodically reviewed their use of purchasing cards and acted on any identified shortcomings.

Our examination included 25 agencies. See Appendix 1 (page 42) for the list of agencies. We reviewed purchase card transactions for the period 1 July 2008 to 31 May 2009.

The examination was conducted in accordance with Australian Auditing Standards.

What Did We Find?

Use of Purchasing Cards

The number of purchasing cards has doubled and the value of transactions has more than quadrupled since 2004

Purchasing card transactions have increased by more than 4.6 times in dollar terms since we last reported on this area in 2004. In 2008-09, agencies held 14 454 cards, compared to 6 585 in 2004. The cards were used in transactions to the value of \$237 million in 2008-09, as against \$42 million in 2003-04. This represents 1.2 per cent of total government expenditure and 11 per cent of total expenditure on services and contracts.

In 2008-09, 45 per cent of all purchases of \$5 000 or less were made with purchasing cards. This figure exceeds the government's target of 40 per cent. The target for 2009 is 60 per cent of these transactions.

Policies and Procedures

We identified issues with purchasing card policies and procedures at 17 agencies. None of these issues were rated as significant.

Two agencies allowed cash withdrawals without clear approval

The DTF guidelines make it clear that purchasing cards cannot be used to withdraw cash, except with the written permission of the agencies' CEO. One agency had given an employee travelling overseas the authority to withdraw cash, but the approval could not be located. At another agency the power had been incorrectly granted by line managers rather than the CEO, but we found no cash had been withdrawn.

Cardholder agreements at six agencies did not meet DTF best practice

Cardholder agreements are the formal contract between the bank, the agency and the individual. Signed agreements are evidence that staff understand their obligations and the circumstances in which they can use the card. DTF has produced a best practice guide for purchasing cards, including sample agreements.

However, six agencies used agreements that lacked important components including the need to obtain approval before making entertainment purchases and to follow agency policy in purchasing assets.

Including complete information would help ensure that all recipients of cards know their basic responsibilities, and the steps to take in exceptional cases.

Twelve agencies had issues with their register of purchasing cards

DTF guidelines recommend that agencies maintain a register of purchasing card holders. These should include information on the cardholder and the person responsible for certifying transactions and limits, amongst other things. This information makes it simpler for the agency to manage transactions cards. We found that 10 agencies had weaknesses in their register. They included:

- no information about certifying officers
- failing to update the register
- inaccurate information on the location of the cardholder. This is important for agencies with large numbers of cards or numerous offices.

Some agencies consider that the purchasing card list maintained by the purchasing card provider and accessible by authorised agency staff is sufficient to comply with DTF guidance and therefore do not keep their own register. While this gives basic information about who has been issued with a card and transaction limits, it does not include important information such as the designated certifying officers (the people authorised to validate a card holders' purchases).

Eight agencies did not have adequate card cancellation procedures

It is important that agencies carefully control access to purchasing cards. This involves the initial granting of access, and removing access when agencies decide that individuals no longer need a card. A key component of this process is having sound policies and procedures for cancelling cards. The cancellation policies of eight agencies needed improvement, including what to do when cancelling cards and not clearly informing staff of their responsibilities such as disposing of cards and acquitting final statements.

Eight agencies did not have policies dealing with long term leave

DTF guidelines state that staff should return their cards when they go on extended leave of more than three months. This minimises the risk of cards being lost or stolen and then misused. At eight agencies we found policies were inadequate in this area.

Managing Transactions

An important control feature over the use of purchasing cards is the validation of the legitimacy of a purchase. Generally, this involves the purchaser retaining evidence to demonstrate that the transaction was:

- for business purposes
- appropriately pre-approved in cases of unusual transactions.

After the expenditure has occurred, it is also important that cardholders acquit their statements in a timely manner, and that supervisors certify the expenditure.

Failures in these procedures increase the risk that inappropriate purchases will be made. We identified weakness in these areas at 16 agencies.

Three per cent of transactions across ten agencies had insufficient documentation

We examined more than 3 000 individual transactions across the 25 agencies totalling \$2.15 million. This represented just less than one per cent of the total public sector expenditure on purchase cards in 2008-09.

Of these transactions, three per cent (100 transactions) with a total value of \$20 000 lacked the required supporting documentation. The largest payment was for \$2 800.

Without good documentation, the risk of improper expenditure increases. We found various issues across ten agencies in regard to documentation. At the basic level, we found numerous cases where there were no supporting documents beyond an EFTPOS receipt.

One area of expenditure that causes problems for many agencies is entertainment and hospitality. No matter how these items are paid for, there are clear requirements for supporting evidence. Entertainment and hospitality purchases require approval from managers to allow the expenditure, and recording of which staff and guests were present.

We found 44 transactions with insufficient documentation for entertainment and hospitality purchases. These transactions represented only one per cent of our sampled transactions, but more than 40 per cent of entertainment purchases.

We also identified a number of other transaction types that caused difficulties across the sampled agencies. Table 1 shows the types of transactions that we most commonly found to lack the necessary evidentiary support. Ensuring that this information is provided will improve the assurance agencies have that expenditure is appropriate.

Transaction type	Documentation necessary to decrease risk
Individual meals	Business use
Seminars, training	Business use; details of attendees
Gifts	Approval
Dinners, functions	Approval; business use; details of attendees
Other entertainment (venues, entertainers, etc)	Approval; business use; details of attendees
Fuel	Fuel should normally be bought with fuel cards. Where this is impossible, explanations should be provided
Accommodation	Business use
Taxi fares	Business use

Table 1: Transactions with increased risk
These types of transactions require careful management to limit risk of improper expenditure.

Eleven agencies had issues in acquitting and certifying card statements

The final practical steps in managing purchasing cards come with the monthly statements. The purchases must be acquitted by the cardholder and then independently certified. Good practice requires the certifying officer to be a superior of the cardholder. One agency did not require line managers to certify statements, but relied on its finance officers to check them. We also found one case where a senior officer certified their own card statements.

We tested 638 statements and found that 38 had not been either signed off by the cardholder or certified. We also found five instances where people other than the cardholder had acquitted a statement.

At a number of agencies we noted weak processes for recording certifying officers’ signatures. Keeping a record of certifying officers’ signatures makes it easier for finance staff to ensure that only appropriate people sign to validate the statements. This is particularly important in larger organisations when dozens of people may be authorised to certify statements.

We found cases in seven agencies where statements were not acquitted or certified within the timeframes required by agency procedures. In one case, the statement was acquitted four months late. Taking too long between purchasing and acquitting and certifying increases the risk that inappropriate purchases will be allowed.

Monitoring Card Usage

Twelve agencies have reviewed their purchasing cards use in the last three years

We found that 12 of the 25 agencies had reviewed their purchase card expenditure or processes in the last three years. The DTF good practice guide recommends that agencies periodically audit card use. Doing this will help agencies ensure that their processes continue to meet need and good practice, and that they are being followed. As purchasing card expenditure increases over time, in line with government policy, it will become increasingly important that agencies can provide assurance for this type of expenditure.

Appendix 1: Agencies examined

Alcohol and Drug Authority
Art Gallery of Western Australia
Department of Agriculture and Food
Department of Education and Training (former)
Department of Health
Department of Housing
Department of Planning
Department of the Premier and Cabinet
East Perth Redevelopment Authority
Legal Aid Western Australia
Legislative Assembly
Legislative Council
Main Roads Western Australia
Metropolitan Public Hospitals
Office of Energy
Parliamentary Services Department
Public Trustee
Real Estate and Business Agents Supervisory Board
Racing and Wagering Western Australia
Settlement Agents Supervisory Board
Swan TAFE
Synergy
Western Australian Electoral Commission
Western Australian Land Information Authority (Landgate)
Western Australian Treasury Corporation

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