Audit Results Report

Western Australian Auditor General’s Report

Audit Results Report

Annual Assurance Audits
completed since 2 November 2009,
including universities and public colleges

and

Compliance Audits

- Managing Attractive Assets
- Managing Salary Payment Errors

Report 4 – May 2010
AUDIT RESULTS REPORT: ANNUAL ASSURANCE AUDITS – COMPLETED SINCE 2 NOVEMBER 2009, INCLUDING UNIVERSITIES AND PUBLIC COLLEGES

AND

COMPLIANCE AUDITS

- MANAGING ATTRACTIVE ASSETS
- MANAGING SALARY PAYMENT ERRORS

The first part of this report under section 24 of the Auditor General Act 2006 (AG Act) covers assurance audits completed since 2 November 2009 and includes:

- opinions and results of audits on the controls, financial statements and performance indicators of four universities and 10 public colleges (formerly TAFE colleges) for the year-ended 31 December 2009
- opinions and results of audits of 10 university subsidiaries
- other audit opinions issued, a half yearly review and audit certifications of financial and statistical information produced by agencies to discharge conditions of Commonwealth funding, grants or other legislation
- opinions and results of the remaining audits for statutory authorities, subsidiaries, cemetery boards and request audits with a 30 June 2009 reporting date, to finalise my reporting on the 2009 audit cycle.

The second and third parts of this report under section 25 of the AG Act detail the findings of two compliance audits of public sector management of attractive assets and salary payment errors.

COLIN MURPHY
AUDITOR GENERAL
5 May 2010
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This report marks the end of the 2009 cycle of assurance audits and also reports the results of two compliance audits.

The first part of the report mainly covers the annual audits of universities, their subsidiaries and public colleges (formerly referred to as TAFE colleges) for the 2009 calendar year. My audit staff noted a reduction in the number and significance of financial and information system control weaknesses at universities and colleges compared to the previous year. There was also a general improvement in the timeliness and quality of the financial statements and supporting evidence provided to audit. Four public colleges and one university achieved better practice status for their financial management practices and 2009 reporting, also an improvement on the previous year.

Of concern, however, are the two qualified opinions and one matter of significance included in this report. Although audit opinions may be qualified for various reasons and may differ in significance, a clear audit opinion should be regarded as a minimum requirement in terms of sound corporate governance and accountability.

Government agencies use a variety of ‘attractive assets’ in their day-to-day business. Attractive assets can be of minor value but are easily portable and therefore more easily lost or stolen. They range from computers, cameras and DVD players, to power tools and laboratory equipment. Agencies have a responsibility to protect these assets. A compliance audit of public sector management of attractive assets is the second part of this report. The 16 agencies sampled generally had suitable registers and procedures for recording and tracking their investment in portable and attractive assets. However, there were weaknesses in their practices. As a result, not all attractive assets of less than $5,000 in value had been registered and not all could be located within the responsible agencies.

The public service employs more than 145,000 people and pays them $8.6 billion each year. If unchecked, payment errors could accumulate to significant amounts across the public sector. The final part of this report reviewed the management of salary payment errors in 12 agencies. Their identified overpayments amounted to zero point one per cent of total payroll. All 12 agencies conducted reasonable tests to identify potential errors before employees were paid and most satisfactorily resolved errors when they occurred. However, no agency kept comprehensive records of salary payment errors to monitor their testing, track investigations and resolution, and to identify any trends of systemic issues.
Audit findings from the annual assurance audits of financial statements and performance indicators prepared by agencies are summarised for Parliament in two reports each year. This report covers primarily the universities and public colleges for the year-ended 31 December 2009. It also includes the finalisation of other 2009 audits not previously reported. This report, along with the Audit Results Report – 2008-09 Assurance Audits (Report 13, November 2009), finalises the 2009 assurance audit cycle.

Key Findings

Audit Opinions

- Clear audit opinions on financial statements, controls and performance indicators were issued to three universities, subsidiaries (financial statements only) and 10 public colleges with a reporting date of 31 December 2009. (Refer pages 8 and 9)
- Murdoch University received a qualified audit opinion on its financial statements as it reported part of its research grants as liabilities rather than income. (Refer page 8)
- Innovative Chiropractic Learning Pty Ltd, a Murdoch University subsidiary was issued with a clear opinion for its 2008 and 2009 financial statements but also received a ‘Matter of Significance’ notice in relation to operational practices that, in the view of Audit, did not comply with Medicare bulk billing requirements. (Refer page 10)
- Nine opinions have been issued since 2 November 2009 for agencies with a 30 June 2009 reporting date. (Refer page 18)
- The Pilbara Development Commission received a qualified opinion on its financial statements and controls because it used restricted funds to meet operational needs. (Refer page 18)

Management Issues

- Financial management control environments at most universities and public colleges improved, with the number of reported issues 33 per cent lower than in 2008 and 48 per cent lower than 2007. (Refer page 11)
- Information system controls findings for 2009 fell by 32 per cent, although almost half of the identified findings were unresolved issues from the prior year. (Refer page 12)
- Four public colleges and one university were rated as better practice agencies for their 2009 financial management and financial reporting practices. In the previous year three public colleges achieved this status. (Refer page 13)

Financial Performance

- The state’s four public universities were generally considered low risk in 2009 when measured against five key indicators for assessing financial performance. (Refer page 14)
Recommendations

Universities, public colleges and all other agencies should ensure that:

• operations of their subsidiary entities are closely monitored

• their information system security arrangements are fit for purpose, in particular, access and security controls

• financial statements, key performance indicators and supporting working papers supplied for audit are of good quality and provided in a timely manner

• management control issues brought to their attention during their audit are addressed in a timely manner to ensure the continuing integrity of their financial control environment.
Audit Opinions for Universities and Public Colleges

- Clear audit opinions on financial statements, controls and performance indicators were issued to three universities, subsidiaries (financial statements only) and 10 public colleges with a reporting date of 31 December 2009.

- Murdoch University received a qualified audit opinion on its financial statements as it reported part of its research grants as liabilities rather than income.

- Innovative Chiropractic Learning Pty Ltd, a Murdoch University subsidiary was issued with a clear opinion for its 2008 and 2009 financial statements but also received a ‘Matter of Significance’ notice in relation to operational practices that, in the view of Audit, did not comply with Medicare bulk billing requirements.

In 2009 the public tertiary education sector comprised four universities and four metropolitan and six regional technical and further education (TAFE) colleges. Some TAFE colleges have been renamed as ‘Institute of Technology’ or ‘Institute of Training’, but for this report are collectively referred to as public colleges.

Total revenue for the Western Australian public tertiary education sector in 2009 was $2 515 million (universities $2 000 million and public colleges $515 million), including Commonwealth and State funding. Controlled assets totalled $5 487 million (universities $4 439 million and public colleges $1 048 million).

Management of the universities and public colleges is responsible for keeping proper accounts and records to enable the timely and accurate preparation of financial reports. An effective internal control system should operate to alert management to irregularities in procedures and assist them to prevent, detect and investigate errors and fraud.

Model financial statements and guidelines are used by the universities and public colleges to prepare their financial statements. Use of standard presentation formats allows comparability of operations. The models were provided by:

- Commonwealth Department of Education, Employment and Workplace Relations (DEEWR) for use by universities

- Western Australian Department of Education for public colleges for 2009 reporting.

Summary of Audit Opinions

For the year-ended 31 December 2009, clear audit opinions were issued on the financial statements, controls and performance indicators of three universities and all public colleges. Murdoch University again received a qualified opinion on its financial statements. The opinions are listed in Table 1.

A clear audit opinion provides assurance that:

- the financial statements and performance indicators present reliable information and have been prepared in accordance with relevant legislation and accounting standards
sound internal controls are in place to ensure compliance with legislation and the accurate, complete and timely processing of all financial transactions.

A qualified opinion notes that the financial statements or performance indicators are less reliable and useful as an accountability document to the extent described in the qualification.

<table>
<thead>
<tr>
<th>UNIVERSITIES</th>
<th>OPINION ISSUED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtin University of Technology</td>
<td>18/03/2010</td>
</tr>
<tr>
<td>Edith Cowan University</td>
<td>08/03/2010</td>
</tr>
<tr>
<td>Murdoch University <em>(Qualified opinion on financial statements)</em></td>
<td>12/03/2010</td>
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<td>The University of Western Australia (UWA)</td>
<td>08/03/2010</td>
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<tr>
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<tr>
<td>Central TAFE renamed Central Institute of Technology from 1 January 2010</td>
<td>25/02/2010</td>
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<tr>
<td>Challenger Institute of Technology, formerly Challenger TAFE</td>
<td>11/03/2010</td>
</tr>
<tr>
<td>C Y O’Connor College of TAFE</td>
<td>17/03/2010</td>
</tr>
<tr>
<td>Durack Institute of Technology, formerly Central West TAFE</td>
<td>16/03/2010</td>
</tr>
<tr>
<td>Great Southern TAFE</td>
<td>15/03/2010</td>
</tr>
<tr>
<td>Kimberley TAFE</td>
<td>16/03/2010</td>
</tr>
<tr>
<td>Pilbara TAFE</td>
<td>16/03/2010</td>
</tr>
<tr>
<td>Polytechnic West, formerly Swan TAFE</td>
<td>12/03/2010</td>
</tr>
<tr>
<td>South West Regional College of TAFE</td>
<td>16/03/2010</td>
</tr>
<tr>
<td>West Coast Institute of Training, formerly West Coast TAFE</td>
<td>12/03/2010</td>
</tr>
</tbody>
</table>

Table 1: Dates opinions issued and any qualifications

All opinions were issued in sufficient time for university and public college annual reports to be tabled by the Minister within 90 days of year-end, as required by legislation.

Qualified Opinion Issued

Murdoch University received a qualified opinion on its financial statements for the year-ended 31 December 2009 as it reported part of its research grants as ‘Other Current Liabilities’, rather than as ‘Income’. This is the third year that the University’s opinion has been qualified for this reason.

The University considers that its practice of recognising these grants upon receipt as a liability, rather than income, better reflects the nature and timing of its revenue and is a more accurate representation of the financial performance of the University in the financial reporting period. However as the University effectively controlled these grants at 31 December 2009, they should have been recognised as income in accordance with the requirements of Australian Accounting Standard AASB 1004 ‘Contributions’.

Accordingly, for the year-ended 31 December 2009, the University’s ‘Grant Income’ and the ‘Operating Result’ were understated by $1.8 million, ‘Other Current Liabilities’ was overstated by $14.9 million and ‘Retained Surplus’ was understated by the same amount.
Current Status on Accounting Treatment of Research Grants

The Australian Accounting Standards Board (AASB) is currently considering proposed changes to the accounting standard AASB 1004. Any changes to the standard will be taken into account during our next audit of universities.

DEEWR, which prepares the model financial statements for universities, notes that universities are not-for-profit entities and would typically recognise government grants as revenue when they are received.

Summary of Opinions on Subsidiaries of Universities

Some university activity is undertaken through subsidiary companies. These subsidiaries are not required to submit performance indicators and therefore the audit opinion relates to financial statements only. The financial results of the subsidiaries are included in the consolidated financial statements of their controlling/parent university. The opinions for universities’ subsidiaries for the year-ended 31 December 2009 were all unqualified opinions and are listed in Table 2.

<table>
<thead>
<tr>
<th>UNIVERSITIES’ SUBSIDIARIES</th>
<th>Opinion Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edith Cowan University</td>
<td>25/03/2010</td>
</tr>
<tr>
<td>ECU Resources for Learning Ltd</td>
<td></td>
</tr>
<tr>
<td>Murdoch University</td>
<td></td>
</tr>
<tr>
<td>Innovative Chiropractic Learning Pty Ltd</td>
<td>23/04/2010*</td>
</tr>
<tr>
<td>(01/01/2008 – 31/12/2008)</td>
<td></td>
</tr>
<tr>
<td>(01/01/2009 – 31/12/2009)</td>
<td>23/04/2010*</td>
</tr>
<tr>
<td>Murdoch Investments Company Pty Ltd</td>
<td>10/03/2010</td>
</tr>
<tr>
<td>MurdochLINK Pty Ltd</td>
<td>18/03/2010</td>
</tr>
<tr>
<td>Murdoch Retirement Services Pty Ltd</td>
<td>10/03/2010</td>
</tr>
<tr>
<td>Murdoch University Foundation</td>
<td>08/04/2010</td>
</tr>
<tr>
<td>Murdoch University Veterinary Trust</td>
<td>27/04/2010</td>
</tr>
<tr>
<td>Murdoch Ventures Pty Ltd</td>
<td>05/03/2010</td>
</tr>
<tr>
<td>The University of Western Australia</td>
<td></td>
</tr>
<tr>
<td>UWA Business School Executive Program Ltd</td>
<td>21/04/2010</td>
</tr>
<tr>
<td>University Club of Western Australia Pty Ltd</td>
<td>25/03/2010</td>
</tr>
</tbody>
</table>

* A Matter of Significance was reported with these audit opinions (see below).

Table 2: Dates opinions issued and any qualifications

Annual reports of subsidiaries are not required to be tabled in Parliament.
Matter of Significance Reported with Audit Opinions

Where a matter relating to the financial statements is of concern but does not warrant a qualified audit opinion, a matter of significance paragraph may be included with the audit opinion. The purpose is to highlight an aspect of the financial statements or operations that is considered significant.

For the years ending 31 December 2008 and 2009, a matter of significance has been reported with the audit opinion to the Murdoch University subsidiary, Innovative Chiropractic Learning Pty Ltd.

Innovative Chiropractic Learning Pty Ltd

During 2008 and 2009, the company, trading as Murdoch University Chiropractic Clinic, referred patients’ x-ray images taken by clinic staff to external radiologists for diagnosis. As part of a fee allocation arrangement between the company and the external radiologist, patients assigned their rights to Medicare benefits to the external radiologist. Audit considers that aspects of this arrangement were inappropriate and non-compliant with Medicare bulk billing requirements under the Health Insurance Act 1973.

After this matter was raised by Audit and after year-end, the company advised that it has ceased this process. It has also advised that it intends to consult with Medicare in regard to the compliance of its past processes with the legislative requirements.

Recommendation

Universities should closely monitor the practices and procedures of their subsidiaries as any inappropriate activities or non-compliance with legislation by the subsidiary implicates the university and reflects upon the controls of the university.
Management Issues at Universities and Public Colleges

- Financial management control environments at most universities and public colleges improved, with the number of reported issues 33 per cent lower than in 2008 and 48 per cent lower than 2007.

- Information system controls findings for 2009 fell by 32 per cent though almost half of the identified findings were unresolved issues from the prior year and many were inexpensive to resolve.

- Eight of the 14 universities and public colleges improved the timeliness of submitting their draft financial statements and performance indicators for audit. However, some public colleges and universities still need to improve the quality of their working papers and draft submissions.

- Four public colleges and one university were rated as better practice for their financial management practices and 2009 reporting. In the previous year three public colleges achieved this status.

Financial Management Control and Reporting Issues

Every agency is responsible for developing and maintaining an internal control system and procedures to ensure legislative compliance and the accurate recording and reporting of financial information and key performance indicators. Internal controls can relate to governance processes, financial management and information system procedures, computer applications and shared service arrangements.

The Auditor General Act 2006 (AG Act) requires the Auditor General to audit agency accounts and to form an opinion on controls. Our audit assesses the reliability of internal control systems and procedures to record and report reliable financial information and key performance indicators.

Overall, we found that the internal controls at the universities and public colleges were adequate. Sixty-two financial management issues were reported to universities and public colleges in 2009 of which six (10 per cent) were unresolved issues from the prior year. Nevertheless, the number of reported financial management issues has fallen considerably from 2008 (33 per cent) and 2007 (48 per cent).

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issues</td>
<td>62</td>
<td>81</td>
<td>120</td>
</tr>
</tbody>
</table>

Table 3: Reported financial management issues – all universities and public colleges

Some of the more frequently occurring control weaknesses identified in 2009 were:

- student enrolment and debtor records were being corrected, overwritten or updated without authorisation or review of the amending entries. Furthermore, student debtor management practices also need to be improved to ensure appropriate follow-up of overdue accounts or write-off of debts. These procedures would assist in ensuring that the student fee revenue is correctly billed, collected, receipted, banked, and brought to account.
reviews of payroll reports are not routinely conducted by cost centre managers to ensure that only current employees are paid, and paid at their appropriate rate.

- segregation of duties issues were noted across the sector with student enrolments, bookshops and revenue banking activities areas identified the most. This increases the risk of fraud.

**Information System Controls**

For the 2009 year, 86 information system control weaknesses were reported to the four universities, six public colleges and Department of Education (DoE). Of these, 40 remained outstanding from previous audits. This is a 32 per cent decrease from 2008, when 126 information control weaknesses were reported. In 2007, 110 information control weaknesses were reported.

Information system (IS) controls are audited to determine whether they are designed, implemented and operating effectively to provide assurance about the reliable and secure processing of financial and key performance information.

We reviewed all four universities and the four metropolitan public colleges. The six regional public colleges are reviewed on a rotational basis covering two public colleges each year. The DoE is also reviewed each year as a provider of key accounting, financial management and student records systems for the public colleges. Although DoE is the provider of these services, the public colleges remain ultimately responsible for ensuring that adequate controls exist over the processing of their transactions.

Fifty-seven per cent of this year’s findings were rated as moderate, requiring action to be taken as soon as possible. There were no significant findings and minor findings made up the remaining 43 per cent.

Fifty-one per cent of the findings we identified related to ‘Security’, with ‘Operations’ making up 19 per cent and ‘Business Continuity’ accounting for 16 per cent. The findings were generally not expensive to resolve and did not require specialist resources. However, if not addressed, they have the potential to compromise the confidentiality, integrity and availability of computer systems.

Our Report 2, *Information Systems Audit Report*, tabled in Parliament on 24 March 2010, provides more detail of our IS audit results of agencies with a 31 December 2009 and 30 June 2009 reporting date. Additionally, the results of our IS compliance audit, application reviews and capability assessments for 2009 are also detailed in the report.

**Timeliness and Quality**

There was a general improvement by the universities, university subsidiaries and public colleges in the timeliness of submitting their draft financial statements and key performance indicators for audit. Eight of the 14 universities and public colleges submitted earlier than the previous year, with four regional public colleges submitting more than two weeks earlier. There is, however, still the need for improvement in the quality of their working papers and draft financial statements. This can be achieved through sound internal quality assurance processes, prior to submission for audit.
Better Practice

Four public colleges and one university demonstrated better practice in managing their financial reporting and controls in 2009 (refer Table 4). This is an improvement on 2008 when three public colleges were considered better practice.

Our criteria for agencies to achieve better practice status include:

- clear opinions on their financial statements, controls and performance indicators
- good quality financial statements and key performance indicators, supported by reliable working papers and submitted for audit within the agreed timeframe
- key staff available during the audit process
- attention given to addressing management control issues raised by Audit
- an internal audit function that was an effective corporate governance tool for agency management where appropriate.

### UNIVERSITY

<table>
<thead>
<tr>
<th>The University of Western Australia</th>
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### PUBLIC COLLEGES

<table>
<thead>
<tr>
<th>Central TAFE (now Central Institute of Technology)*</th>
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</thead>
<tbody>
<tr>
<td>Durack Institute of Technology</td>
</tr>
<tr>
<td>Pilbara TAFE</td>
</tr>
<tr>
<td>West Coast Institute of Training *</td>
</tr>
</tbody>
</table>

* Also acknowledged in 2008.

Table 4: Better practice for 31 December 2009 reporting
Financial Performance Information for Universities

- The state’s four public universities were generally considered low risk in 2009 when measured against five key indicators for assessing financial performance.

A number of benchmark indicators for the financial performance of universities have been identified by the Commonwealth Department of Education, Employment and Workplace Relations (DEEWR). These measures include liquidity, diversity of revenue, ratio of international student fees, operating result and borrowings to equity ratio. Each university’s performance against these indicators for the three years ending 31 December 2007 to 2009 is presented below, based on the audited financial statements.

Liquidity

The liquidity or current ratio is based on the traditional formula of current assets divided by current liabilities. This ratio assesses an entity’s ability to meet their debts as and when they fall due. DEEWR considers a ratio of more than one is low risk. Using this guideline, all universities would be considered low risk in 2009.

<table>
<thead>
<tr>
<th>University</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtin</td>
<td>2.2</td>
<td>2.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Edith Cowan</td>
<td>1.4</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Murdoch</td>
<td>1.0</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td>UWA</td>
<td>1.2</td>
<td>1.2</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Table 5: Liquidity ratio for 2007 to 2009 for universities

On this indicator, all universities would be rated as low risk.

Diversity of Revenue – Dependence on Australian Government Funding

One way universities can reduce their financial risks is by diversifying their revenue sources. Each university has a different capacity to generate revenue, depending on factors such as location, size, courses offered, extent of research activity, perceived standing and student profiles. DEEWR considers universities with 55 per cent or less of revenue from Australian Government funding to be low risk. Less than 65 per cent is considered to be medium risk. This funding includes operating grants, HELP and research grants. Curtin, Murdoch and UWA were considered low risk for this indicator in 2009.

<table>
<thead>
<tr>
<th>University</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtin</td>
<td>48%</td>
<td>46%</td>
<td>47%</td>
</tr>
<tr>
<td>Edith Cowan</td>
<td>61%</td>
<td>61%</td>
<td>59%</td>
</tr>
<tr>
<td>Murdoch</td>
<td>54%</td>
<td>57%</td>
<td>51%</td>
</tr>
<tr>
<td>UWA</td>
<td>53%</td>
<td>55%</td>
<td>54%</td>
</tr>
</tbody>
</table>

Table 6: Diversity of revenue (dependence on Australian Government funding) ratio for 2007 to 2009 for universities

On this indicator, three of the four universities would be rated as low risk.

Note: Murdoch experienced a one-off increase in revenue in 2007.
Dependence on International Student Fees

Some universities diversify their revenue sources by encouraging international students to study their courses in Australia. However, it is generally accepted that universities should not be overly dependent on this source of income. DEEWR considers universities with 15 per cent or less of operating revenue from fee-paying overseas students to be low risk. Less than 25 per cent is considered to be medium risk. Based on these criteria, UWA and Murdoch universities continue to be considered low risk and Curtin and ECU have medium risk for this indicator.

<table>
<thead>
<tr>
<th>International Student Fees Ratio</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtin</td>
<td>21%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Edith Cowan</td>
<td>19%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Murdoch</td>
<td>14%</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>UWA</td>
<td>10%</td>
<td>10%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Table 7: Fees from international students as a proportion of total operating revenue for 2007 to 2009

On this indicator, two of the four universities would be rated as low risk.

Operating Result

Universities are not-for-profit organisations but their operating result is a useful measure of financial performance. Large deficits or a trend of a number of consecutive deficits would require review and analysis.

All four universities reported a surplus for 2009.

<table>
<thead>
<tr>
<th>Operating Result / Operating Revenue</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtin</td>
<td>9%</td>
<td>9%</td>
<td>13%</td>
</tr>
<tr>
<td>Edith Cowan</td>
<td>8%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Murdoch</td>
<td>4%</td>
<td>6%</td>
<td>22%</td>
</tr>
<tr>
<td>UWA</td>
<td>7%</td>
<td>-10%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 8: Operating result as a percentage of total operating revenue for 2007 to 2009

On this indicator, all universities would be rated as low risk.

Note: Murdoch experienced a one-off increase in revenue in 2007.

UWA experienced significant investment losses during the global financial crisis in 2008.
Borrowings to Equity Ratio

Universities are permitted by their legislation to finance their activities by borrowing. DEEWR considers universities with seven per cent or less of their equity represented by borrowings to be low risk. Less than 10 per cent is considered medium risk. Curtin, Murdoch and UWA have consistently been low risk against this indicator.

<table>
<thead>
<tr>
<th>Borrowings to Equity Ratio</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtin</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Edith Cowan</td>
<td>8%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Murdoch</td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>UWA</td>
<td>5%</td>
<td>3%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 9: Borrowings to equity ratio for 2007 to 2009

On this indicator, three of the four universities would be rated as low risk.

Note: Curtin’s borrowings exclude amounts for the new Chemistry Centre which are offset by lease revenue.
Results of Other 31 December 2009 Audits and a Half Yearly Review

- Four clear audit opinions and one independent review report have been issued for other agencies reporting at 31 December 2009.

Opinions for 31 December 2009 Reporting Date

In addition to universities, their subsidiaries and public colleges, the following four clear opinions were issued on financial statements, controls and performance indicators.

<table>
<thead>
<tr>
<th>STATUTORY SIX MONTHLY AUDIT (01/07/2009 – 31/12/2009)</th>
<th>OPINION ISSUED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Contribution Trust</td>
<td>08/04/2010</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CALENDAR YEAR AUDITS (01/01/2009 – 31/12/2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Anzac Day Trust</td>
</tr>
<tr>
<td>Government House Foundation of Western Australia Inc. (Request audit - financial statements only) (01/01/2008 – 31/12/2008)</td>
</tr>
<tr>
<td>Government House Foundation of Western Australia Inc. (Request audit - financial statements only) (01/01/2009 – 31/12/2009)</td>
</tr>
</tbody>
</table>

Table 10: Dates opinions issued and any qualifications

Half Yearly Financial Review

A clear independent review report was issued to the Water Corporation on 5 March 2010 for the six months ended 31 December 2009. This review of the Water Corporation is performed at the request of their Board to mirror the requirements of the Corporations Act 2001.

Review reports are prepared for use of the Corporation’s board. The review is conducted in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 ‘Review of an Interim Financial Report Performed by the Independent Auditor of the Entity’. The procedures performed during a review are limited primarily to inquiries of company or corporation personnel and analytical procedures applied to the financial data. A review, therefore, does not provide all the assurance that would be provided by an audit.
Other Audits Completed Since 2 November 2009

- Nine opinions have been issued since 2 November 2009 for agencies with a 30 June 2009 reporting date.
- The Pilbara Development Commission received a qualified opinion on its financial statements and controls because it used restricted funds to meet operational needs.

Audit Opinions

Audit opinions issued since 2 November 2009 to nine agencies with a 30 June 2009 reporting date are listed in Table 11. With the exception of the Chowerup Cemetery Board, which has not submitted financial statements for audit, this concludes the 2009 audit cycle.

<table>
<thead>
<tr>
<th>STATUTORY AUTHORITIES</th>
<th>AUDIT OPINION ISSUED ON</th>
<th>OPINION ISSUED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pilbara Development Commission (Qualified opinion on financial statements and controls)</td>
<td>Financial statements, controls and KPIs.</td>
<td>30/11/2009</td>
</tr>
<tr>
<td><strong>SUBSIDIARIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergain Pty Ltd</td>
<td>Financial statements only.</td>
<td>11/11/2009</td>
</tr>
<tr>
<td><strong>CEMETERY AUDITS – Audited under Cemeteries Act 1986</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Albany Cemetery Board</td>
<td>Financial statements only.</td>
<td>14/12/2009</td>
</tr>
<tr>
<td>Bunbury Cemetery Board</td>
<td></td>
<td>30/11/2009</td>
</tr>
<tr>
<td>Chowerup Cemetery Board</td>
<td>Financial statements only.</td>
<td>Not submitted</td>
</tr>
<tr>
<td>Dwellingup Cemetery Board</td>
<td>Financial statements only.</td>
<td>21/01/2010</td>
</tr>
<tr>
<td>Geraldton Cemetery Board</td>
<td></td>
<td>14/12/2009</td>
</tr>
<tr>
<td>Kalgoorlie-Boulder Cemetery Board</td>
<td></td>
<td>18/12/2009</td>
</tr>
<tr>
<td>South Caroling Cemetery Board</td>
<td></td>
<td>02/03/2010</td>
</tr>
<tr>
<td><strong>REQUEST AUDIT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South West Cogeneration Joint Venture</td>
<td>Financial statements only.</td>
<td>30/03/2010</td>
</tr>
</tbody>
</table>

Table 11: Dates and types of opinions

Qualified Opinion Issued

Pilbara Development Commission received a qualified opinion on its controls and financial statements for the financial year ended 30 June 2009. During the 2008-09 financial year, the Commission drew on restricted funds to meet operational needs. Controls over these restricted funds, which included specific purpose grants money, were inadequate for ensuring that they were spent only for their approved purpose. Furthermore, because of inadequate controls and records, Audit was unable to determine the amount of restricted funds used for operational purposes during the year. In addition, an opinion could not be formed on whether the amounts disclosed under ‘Restricted Cash and Cash Equivalents’ in the Notes to the financial statements fairly presented the position of the Commission at year-end.
Audit Certifications

Audit work is also undertaken throughout the year to certify financial and statistical information produced by agencies. This assists agencies to discharge conditions of Commonwealth funding, specific grants or legislation so that they can receive ongoing funding or apply for future funding under existing or new agreements.

A total of 29 independent audit reports were completed for activities largely occurring during the 2009 reporting cycle. Twenty-one certifications were detailed in Report 13, November 2009, and a further eight are reported below. In all cases our independent audit reports confirmed managements’ assertions

<table>
<thead>
<tr>
<th>Client</th>
<th>Certification Relates to</th>
<th>Date Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissioner of Main Roads</td>
<td>Black Spot Projects under the Nation Building Program (National Land Transport) Act 2009: Statement of amounts expended or retained for expenditure for Black Spot Projects under the Act for the year-ended 30/06/2009.</td>
<td>18/12/2009</td>
</tr>
<tr>
<td>Commissioner of Main Roads</td>
<td>Interstate Road Transport Act 1985: Statement of amounts expended or retained for expenditure in accordance with the Act for the year-ended 30/06/2009.</td>
<td>18/12/2009</td>
</tr>
<tr>
<td>Commissioner of Main Roads</td>
<td>Nation Building Program (National Land Transport) Act 2009: Statement of amounts expended or retained for expenditure in accordance with the Act for the year-ended 30/06/2009.</td>
<td>18/12/2009</td>
</tr>
<tr>
<td>Department of Health</td>
<td>Australian Health Care Agreements for 2008-09: Public hospital expenditure data of the required report on 2008-09 recurrent health expenditure for year-ended 30/06/2009.</td>
<td>11/12/2009</td>
</tr>
<tr>
<td>Department of Planning</td>
<td>AusLink (National Land Transport) Act 2005: Statement of receipts and payments for the Nation Building Program for ‘Urban Congestion – a study to develop a Transport Master Plan for Perth Airport’ in accordance with the Act for the year-ended 30/06/2009.</td>
<td>08/12/2009</td>
</tr>
<tr>
<td>Electricity Networks Corporation – Western Power</td>
<td>Economic Regulation Authority’s Guidelines for Access Arrangement Information: Revised regulatory financial statements in accordance with guidelines under the Electricity Networks Access Code 2004 for year-ended 30/06/2009.</td>
<td>21/12/2009</td>
</tr>
<tr>
<td>Family Court of Western Australia</td>
<td>Family Law Act 1975: Statement of income and expenses in accordance with Commonwealth-State Agreement under the Act for year-ended 30/06/2009.</td>
<td>26/02/2010</td>
</tr>
<tr>
<td>WA Country Health Service and Commonwealth Department of Broadband, Communications and the Digital Economy</td>
<td>Clever Networks Program: Statement of income and expenditure under the Clever Networks Program – Innovative Services Delivery Projects Funding Agreement for the period 20/05/2008 to 09/04/2010.</td>
<td>22/04/2010</td>
</tr>
</tbody>
</table>

Table 12: Independent audit reports or certifications issued
Part 2: Compliance Audit on Managing Attractive Assets

Overview

Government agencies use a variety of ‘attractive assets’ in their day-to-day business. Attractive assets can be of minor value but are easily portable and therefore more easily lost or stolen. They range from computers, cameras and DVD players, to electric tools and laboratory equipment.

To manage attractive assets, agencies must keep an accurate record of where the assets are, or who is responsible for them. Records and assets should be regularly checked. Losses and discrepancies should be followed up.

Until 2007, all assets that cost more than $1,000 were recorded on fixed asset registers, and tracked through regular stocktakes. In 2007, the mandatory capitalisation limit was raised to $5,000. Assets between $1,000 and $5,000, whether fixed or portable, were no longer automatically recorded and tracked for financial reporting. Nevertheless, agencies continue to have a responsibility to protect these assets.

This examination reports on how well 16 agencies tracked their attractive assets.

Conclusion

The agencies in our sample generally had suitable registers and procedures for recording and tracking their attractive assets. However there were weaknesses in practice. These included: registers that were incomplete or out of date, inaccurate records, inadequate checking of physical assets against records, and inadequate monitoring of losses and discrepancies. As a result, not all assets had been registered and not all could be located.

Key Findings

• Eight per cent of attractive assets (52 of 660) we sampled could not be found. Only three of the 16 agencies could locate all assets selected from their attractive asset registers. The inability to find the assets could be due to inadequate recording of asset movements or disposals or because the assets had been lost or stolen.

• Eight per cent of attractive assets we sampled were not recorded on registers. While seven agencies had recorded all the assets we sampled, two had failed to record more than 10 per cent of assets. Good records lessen the risk of misuse or theft and support future procurement decisions.

• There were specific weaknesses in the way agencies recorded, tracked and monitored their attractive assets. We found:
  o three agencies did not maintain comprehensive registers
  o attractive asset registers were not up to date in 13 agencies
  o three agencies did not perform adequate checks of their attractive asset registers, and seven were weak at following up stocktakes and reported losses.

Comprehensive and accurate records provide a sound basis for decision-making. Verification and monitoring activities help agencies identify and fix individual or systemic problems. Policies and procedures support good practice.
What Should Be Done?

All agencies should ensure that:

- all attractive assets are registered
- information on registers is sufficient to locate the individual assets
- information on registers is periodically checked and that this tracking is methodical, independent, recorded, reported and used to update registers
- discrepancies found during stocktakes are followed up and appropriate action taken, including reporting to monitor trends and identify problems
- reports of damage, loss or theft are followed up and appropriate action taken, including reporting.
Background

Government has a considerable investment in portable and attractive assets. Agencies are responsible for managing these assets so that they are available and ready for use when and where they are needed. To do this, they need accurate records and processes to make sure that assets are well managed and protected.

Treasurer’s Instruction (TI) 410 – Records of Assets – requires agencies to keep a register of all items of property, plant and equipment worth more than $5 000. While agencies can decide whether or not to keep a register of assets worth less than $5 000, the TI requires them to protect those assets if they are ‘portable and attractive’. Guidelines suggest that records of attractive items are useful for risk management and insurance. TI 406 requires agencies to conduct stocktakes to verify all recorded assets.

The Auditor General’s financial audits regularly identify weaknesses in asset management. Many agencies fail to keep up-to-date asset registers or conduct adequate stocktakes.

What Did We Do?

For this examination, we looked in detail at how 16 agencies managed their attractive assets. We examined whether agencies managed their attractive assets so as to meet the intent of Treasurer’s Instruction 410. We asked:

• could attractive assets be found?
• were all attractive assets registered?
• were registers comprehensive?
• were registers up to date?
• were registers periodically verified?
• did agencies take appropriate action to follow up discrepancies and reported losses?

We tested activity dealing with four types of asset:

• information technology equipment such as computers and laptops
• general items – eg equipment used in workshops, laboratories and hospital theatres
• audiovisual equipment including cameras and television sets
• hand-held data devices including smart phones.

1 Office of the Auditor General, Audit Results Report No. 11, November 2007, p14.
We interviewed key staff, examined documents and registers, and verified assets and records at 16 agencies. They were:

- Botanic Gardens and Parks Authority
- Bunbury Port Authority
- Challenger Institute of Technology (formerly Challenger TAFE)
- Country High Schools Hostels Authority
- Department of Agriculture and Food
- Department of the Attorney General
- Department of Sport and Recreation
- Department of Treasury and Finance
- Fire and Emergency Services Authority
- Insurance Commission of Western Australia
- Public Transport Authority
- South West Development Commission
- The University of Western Australia
- Water Corporation
- Western Australian Land Authority (LandCorp)
- Western Australian Tourism Commission

For reporting purposes we refer to all of the above organisations as agencies.

Agencies are not required to record the value of their attractive assets in a register. This meant we did not assess the total value of attractive assets, or the value of items that could not be found.

The period examined was the 2008-09 financial year.

The examination was conducted in accordance with Australian Auditing Standards.

What Did We Find?

Overall, the agencies we examined had established suitable registers and procedures to record and track their attractive assets. However, we found weaknesses in practice. Specifically, we found incomplete or out of date registers, inaccurate records, inadequate checking of physical assets against records, and inadequate monitoring of losses and discrepancies. Table 1 illustrates our findings.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Registered items could be found*</th>
<th>Registers were comprehensive</th>
<th>All assets were registered</th>
<th>Registers were up to date</th>
<th>Agency periodically verified records</th>
<th>Adequate monitoring of losses and discrepancies**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Met criterion</td>
<td>3</td>
<td>13</td>
<td>7</td>
<td>3</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>Partially met criterion</td>
<td>9</td>
<td>2</td>
<td>7</td>
<td>7</td>
<td>Not applicable</td>
<td>2</td>
</tr>
<tr>
<td>Did not meet criterion</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>5</td>
</tr>
</tbody>
</table>

*‘Met criterion’ = all items in sample found; ‘partially met criterion’ = > 90 per cent of items found; ‘did not meet criterion’ = < 90 per cent of items in sample found. Sample sizes were 25 for small agencies and 50 for larger agencies.
**Criteria not applicable in two agencies.

Table 1: Summary of agency performance against audit criteria

While most agencies had set up comprehensive registers, and periodically verified these records, many did not perform as well against the other criteria for good management of attractive assets.
Eight per cent of attractive assets could not be found
The ultimate test of whether there are effective controls over attractive asset movements and disposals is whether or not the items can be found. Across the 16 agencies examined, eight per cent (52/660) of assets selected from asset registers could not be located and had not been disposed of.

At three agencies, all items were located. In nine agencies, we could not find a small number of items while at four agencies, more than 10 per cent of items could not be found.

IT equipment such as desktop computers and laptops comprised 40 per cent of the items that could not be found. Other items included musical instruments, laboratory and medical equipment, data and communication devices, and audiovisual equipment.

Three agencies did not maintain comprehensive registers
Having a comprehensive register is a basic requirement for managing attractive assets well. We expected registers to include sufficient information to enable attractive assets to be tracked, and to cover all types of attractive assets.

Fifteen agencies recorded sufficient information to allow attractive assets to be tracked. Registers included unique identifiers for each asset, either an assigned asset number or serial number. They also included either a custodian for the item or its location.

Fourteen agencies maintained records for all types of assets we considered to be portable and attractive. Two agencies kept records for IT equipment and personal data and telecommunications devices, but not other attractive assets. Both agencies agreed to record all types in future.

As well as examining what records agencies kept, we noted how attractive assets were defined. Definition has become more important since the Treasurer’s Instruction was changed to raise the asset capitalisation threshold from $1 000 to $5 000. Capitalised assets must be registered and tracked through their useful life. We found:

- three agencies had lowered their capitalisation limit to amounts between $100 and $1 000. This treats attractive assets in the same way as fixed assets
- one agency capitalised items with a useful life greater than one year whatever their value while another agency did the same if the useful life was two years or more
- eleven agencies considered whether items were portable and susceptible to theft or loss in their definitions.

Eight per cent of assets were not registered
To test whether agencies had registered all their attractive assets, we checked assets in the field and recently purchased items against agency registers. Registering items is a crucial step towards managing and protecting them. Overall, we found eight per cent (48/599) of assets were not registered. Seven agencies had registered all assets sampled. Seven agencies had failed to register some assets. Two agencies had significant failings in their registers: one had failed to register 15 of 50 items tested; the other had not registered eight of 20 items.
Attractive asset registers were not up to date

Up to date registers mean that agencies have accurate information for decisions about asset acquisition, use and disposal. Agencies should record all changes in location or user, and remove from the register items which are lost, stolen or disposed of.

We checked asset locations and custodians of 762 attractive assets. Overall, 85 per cent of records were correct. For 12 per cent (92/762) of items across 11 agencies, there was an error in the record of either the custodian or the location. These items could easily be found. However for three per cent (20/762) of items across six agencies, both user and location were incorrectly recorded, making them difficult to locate. Three agencies had correct records.

When we could not initially locate an asset, we tested to see if it had been disposed of. There were 104 such cases. Testing showed that 23 assets in nine agencies had been disposed of without updating the register. Further, at four agencies, some assets had been disposed of without due process or proper authorisation.

Thirteen agencies periodically verified attractive asset records

TI 406 requires agencies to conduct stocktakes to verify all recorded assets, at least once every three years. Identifying discrepancies in records or unreported losses reveals whether asset deployment, movements and security have been properly managed.

Thirteen of the 16 agencies met our expectations for checking attractive assets and records. Two agencies tracked only their IT and telecommunications equipment. At a third agency, some business units verified attractive asset registers, while others did not.

The most common way of tracking attractive assets was to perform an annual stocktake, comparing physical assets with asset records. Seven agencies used this method. Others undertook stocktakes less often, either every two or three years.

Seven agencies had weaknesses in following up stocktakes and reported losses

Agencies should use stocktakes and reports of damage, loss or theft, to identify problems in asset acquisition, use and disposal. They should then rectify any individual or systemic problems found.

We found room for improvement in the way agencies were following up both discrepancies identified during stocktakes and reports of damage, loss or theft. Specifically:

- of nine agencies that had identified discrepancies during stocktakes, four had not conducted adequate investigations or taken appropriate follow-up action
- of 11 agencies where losses had been reported, three had not followed up adequately
- five agencies did not analyse records and monitor trends, although discrepancies and losses had occurred.
Overview

The public service employs more than 145,000 people and pays them $8.6 billion each year, or $330 million every fortnight. If unchecked, payment errors could accumulate to significant amounts across the public sector. It is important that agencies prevent errors from happening where possible. They should also respond quickly when errors occur so that employees are paid what they are owed and repay money they should not have received.

We examined whether 12 agencies took action to prevent salary payment errors and took appropriate steps to resolve them when they occurred. Our sample included the three shared services centres, which together manage salary payments for more than a half of public sector employees.

Conclusion

All agencies conducted reasonable tests to identify potential errors before employees were paid and 11 of the 12 agencies satisfactorily resolved errors when they occurred. Identified overpayments amounted to zero point one per cent of salaries. However, agencies did not keep sufficient information to identify and then address systemic issues.

Key Findings

- Identified salary overpayments amounted to just zero point one per cent of agencies’ total payroll.
- All agencies conducted reasonable tests to identify errors before salary payments were made. These tests help agencies prevent many salary payment errors.
- No agency kept comprehensive records of salary payment errors with only one agency keeping a record of underpayments. Such records help agencies to monitor their testing, track investigations and resolutions, and to identify any trends or systemic issues.
- Eleven agencies resolved salary payment errors appropriately. They investigated why errors had occurred, corrected underpayments and made arrangements to recoup overpayments. At the Health Corporate Network we found that they had overlooked the recovery of an overpayment error affecting 150 employees and averaging $1,000 per employee. The error was identified in September 2008.

What Should Be Done?

All agencies should:

- record information on all types of errors so that trends and systemic issues can be identified and addressed
- promptly address all identified payment errors.
Agency Responses

Department for Child Protection
The Department undertakes comprehensive evaluations via quality assurance processes to ensure payroll overpayments and underpayments are kept to a minimum. The Department does keep a record of both over and under payments and will use this to keep senior management informed of trends and systemic issues. The Internal Audit and Performance Review branch will continue to undertake regular audit reviews of this area.

Department of Education
The Department of Education acknowledges the findings of the report and will continue to implement improvement strategies to address payroll errors.

Department of Environment and Conservation
It is acknowledged that the Office of the Auditor General identified that salary payment errors are routinely reported to senior management. However, the Department will ensure procedures are developed to provide a structured approach to this reporting.

Department of Health
The Department of Health, on behalf of the Health Corporate Network, accepts the findings and implications set out in the OAG's report, including acknowledgement that reasonable steps are being taken to identify potential errors before employees are paid. It is also accepted that follow-up overpayment was delayed in one area as a result of the introduction of a new payroll system: a situation that has been rectified and action taken to ensure it does not re-occur.

Department of Indigenous Affairs
The findings and recommendations from the audit report are viewed as an opportunity to improve our payroll procedures and practices. In consultation with payroll staff, processes have been developed and implemented to ensure that appropriate actions are taken and records kept when payroll errors occur.

Western Power
Western Power appreciates the opportunity afforded by this review to examine and improve our payroll processes. We were pleased to be advised there were no significant findings. The moderate finding relating to salary payment errors will be dealt with by the development of an appropriate standard by 30 June, 2010.
Background

Payroll transactions are relatively low individual value, but high volume. Employee confidence in the accuracy and reliability of the payroll system is critical to the morale of an agency. Hence, managing the payroll well is a key task for any organisation. Agencies have a range of options to find and correct errors before employees are paid. When errors occur, agencies should promptly fix them. They should also monitor and improve payroll processes if too many errors occur.

What Did We Do?

We assessed activity at nine individual agencies and the three main public sector shared services centres. In 2008-09, they paid 89,000 people $5.28 billion. Our objective was to determine if agencies were detecting and acting on salary payment errors. We asked:

- what was the extent of under and overpayments?
- how do agencies prevent salary payment errors from occurring?
- do agencies resolve salary payment errors appropriately?
- do agencies take action to address the root cause of salary payment errors?

We interviewed key staff, analysed documents and examined controls over payroll functions. We did not do detailed testing of payroll transactions. The agencies were:

- Department for Child Protection
- Department of Corrective Services
- Department of Environment and Conservation
- Department of Indigenous Affairs
- Department of the Premier and Cabinet
- Disability Services Commission
- Verve Energy
- Western Australian Greyhound Racing Association
- Western Power Networks.

The three shared services were:

- Department of Education and Training Shared Services Centre (ETSSC)
- Department of Health Corporate Network (HCN)
- Department of Treasury and Finance Shared Services Centre (DTFSSC).

For reporting purposes, we have referred to ETSSC, HCN and DTFSSC as agencies. The period examined was the 2008-09 financial year.

The examination was conducted in accordance with Australian Auditing Standards.
What Did We Find?

Identified salary overpayments were zero point one per cent of total payroll

Testing indicated that the sampled agencies identified salary overpayments of $4.9 million from total salaries of $3.3 billion in 2008-09. This error rate equated to 0.14 per cent overall but it ranged from 0.003 per cent to 0.16 per cent of salary across the agencies.

All agencies conducted reasonable tests to identify and correct potential salary payment errors

Each agency tested for potential salary payment errors and made adjustments before employees were paid. Such tests minimise the number of errors that occur.

All agencies had procedures to identify potential overpayments and nine of the 12 agencies also identified potential underpayments. The Disability Services Commission, Verve Energy and the Western Australian Greyhound Racing Association relied on employees or line managers to report underpayments if they occurred.

There is no standard minimum testing or processes to minimise potential errors. Typical testing processes were:

- identifying and analysing cases where pay rates, hours or gross pay exceed set limits
- comparing payroll figures against previous payrolls
- checking various aspects of employees' data for example, hours, salaries, allowances, leave and deductions
- comprehensive checks of commencements and terminations.

<table>
<thead>
<tr>
<th>CASE STUDY</th>
<th>Department of Education and Training Shared Services Centre</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At the time of audit ETSSC managed the payroll for the entire Education and Training sector – approximately 40 000 people. It extensively tested pre-payment data to identify errors. Tests included:</td>
</tr>
<tr>
<td></td>
<td>• eligibility for allowances, including end dates</td>
</tr>
<tr>
<td></td>
<td>• negative leave credits</td>
</tr>
<tr>
<td></td>
<td>• employee status</td>
</tr>
<tr>
<td></td>
<td>• fixed-term employment arrangements without an end date</td>
</tr>
<tr>
<td></td>
<td>• employees younger than 15 or older than 75</td>
</tr>
<tr>
<td></td>
<td>• employees with more than 60 days accrued annual leave or more than 130 days accrued long service leave</td>
</tr>
<tr>
<td></td>
<td>• long service leave pro rata adjustments</td>
</tr>
<tr>
<td></td>
<td>• net payments &gt;$3 500</td>
</tr>
<tr>
<td></td>
<td>• transactions without general ledger codes.</td>
</tr>
</tbody>
</table>
Eleven agencies resolved salary payment errors appropriately

We examined a small number of payroll errors to see how each agency dealt with them. Eleven of the agencies rectified sampled errors appropriately. They investigated why errors had occurred, corrected underpayments and made arrangements to recoup overpayments.

At HCN we found that an error in calculating back pay in September 2008 resulted in 250 staff being overpaid an average of $1,000. All were informed they had been overpaid. One hundred staff made arrangements to repay their debt. The other 150 did not make arrangements, and at the time of audit had not been contacted again.

The rate of recovery of salary overpayments in 2008-09 amongst the eight agencies that kept adequate records was equivalent to 80 per cent of total overpayments in that year. We noted that agencies have limited ability to impose fast rates of repayment and that some overpayments can take years to recoup. The oldest overpayment still being repaid amongst the eight agencies was from March 2002 when an overpayment of $3,334 was identified of which $210 is still to be repaid.

No agency kept comprehensive records of salary payment errors

Maintaining good records of the type and extent of payroll errors is important for identifying trends and systemic issues that need correction. None of the 12 agencies kept comprehensive records of salary errors, particularly underpayments.

We found that:

- four agencies kept no register of overpayment amounts. These agencies were Department of Indigenous Affairs, Verve Energy, the Western Australian Greyhound Racing Association and Western Power Networks
- five agencies kept no register of the number of overpayments. These were Department of Indigenous Affairs, Verve Energy, the Western Australian Greyhound Racing Association, Western Power Networks and HCN
- 11 agencies had no register of underpayment amounts. The only agency which did was HCN
- no agencies registered the number of underpayments.

Five agencies routinely reported to senior management on salary payment errors

Agencies should keep senior management informed about errors, outcomes (including recovery) and trends so that they can decide if policies, procedures or systems should be reviewed or improved.

Only five agencies were routinely reporting to senior management on salary payment errors. They were the Department of Environment and Conservation, the Disability Services Commission, DTFSSC, ETSSC and HCN.

Other agencies relied on chief finance officers or human resource managers to monitor payroll processes, including testing and adjustments made before pay runs and the number and resolution of salary payment errors. Managers were required to report to senior executive only if there was a major problem in payroll processing.
### Abbreviations, Acronyms and Glossary

<table>
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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
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<tr>
<td>Agency</td>
<td>Term used to describe clients audited by the Auditor General, including departments, statutory authorities, corporations, subsidiaries, request audits and cemetery boards.</td>
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<tr>
<td>AG Act</td>
<td>Auditor General Act 2006</td>
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<tr>
<td>Assurance audit</td>
<td>Work performed to enable an opinion to be expressed regarding a report about financial or performance matters prepared by the party who is accountable for the financial transactions or the performance summary.</td>
</tr>
<tr>
<td>Clear opinion (or unqualified opinion)</td>
<td>Auditor General’s opinion expressed when an audit concludes that in all material respects the financial statements and performance indicators are presented fairly in accordance with the enabling legislation of the agency, Australian Accounting Standards (including Australian Accounting Interpretations) and the Treasurer’s Instructions.</td>
</tr>
<tr>
<td>Contract audit</td>
<td>Audit of an agency undertaken by an appropriately qualified individual or firm, on behalf of the Auditor General, appointed under a contract.</td>
</tr>
<tr>
<td>DEEWR</td>
<td>Department of Education, Employment and Workplace Relations (Commonwealth)</td>
</tr>
<tr>
<td>DET</td>
<td>Department of Education and Training (State) from 30 October 2009 was separated into Department of Education and Department of Training and Workforce Development</td>
</tr>
<tr>
<td>DoE</td>
<td>Department of Education (State) commencing from 30 October 2009 as noted above under DET</td>
</tr>
<tr>
<td>DTF</td>
<td>Department of Treasury and Finance (State)</td>
</tr>
<tr>
<td>DTFSSC</td>
<td>Department of Treasury and Finance Shared Services Centre</td>
</tr>
<tr>
<td>ETSSC</td>
<td>Education and Training Shared Service Centre, part of DET and from 30 October 2009, part of DoE</td>
</tr>
<tr>
<td>FM Act</td>
<td>Financial Management Act 2006</td>
</tr>
<tr>
<td>HCN</td>
<td>Department of Health Corporate Network (HCN)</td>
</tr>
<tr>
<td>IS</td>
<td>Information systems, primarily computerised systems</td>
</tr>
<tr>
<td>KPI</td>
<td>Key performance indicator – information about service performance or outcome achievement</td>
</tr>
<tr>
<td>Management letter</td>
<td>Letter to agency management that conveys significant audit findings and results of the audit. A copy is also sent to the responsible Minister.</td>
</tr>
<tr>
<td>Materiality</td>
<td>Magnitude of an omission or misstatement of accounting or performance information that, in the light of context or circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced.</td>
</tr>
<tr>
<td>Qualified opinion</td>
<td>Auditor General’s opinion expressed when an audit identifies that the financial statements or performance indicators are likely to be misleading to users, controls were inadequate, there was material conflict between applicable financial reporting frameworks or an unavoidable limitation on audit work.</td>
</tr>
<tr>
<td>Significance</td>
<td>Relative importance in the circumstances, in relation to audit objectives, of an item, event or information, or problem the auditor identifies.</td>
</tr>
<tr>
<td>TAFE</td>
<td>Technical and Further Education</td>
</tr>
<tr>
<td>TI</td>
<td>Treasurer’s Instructions – prescribed requirements at a minimum level with respect to financial administration that have the force of law and must be observed by public sector agencies under the FM Act.</td>
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