



## Western Australian Auditor General's Report

# Audit Results Report

## Annual Assurance Audits

- Universities and state training providers
- Other audits completed since 29 October 2012

and

## Across Government Benchmarking Audits

- Recording, custody and disposal of portable and attractive assets
- Control of funds held for specific purposes

Report 4 – May 2013





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ISSN: 2200-1913

# **Audit Results Report**

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- Universities and state training providers
- Other audits completed since 29 October 2012

**and**

## **Across Government Benchmarking Audits**

- Recording, custody and disposal of portable and attractive assets
- Control of funds held for specific purposes



**THE PRESIDENT  
LEGISLATIVE COUNCIL**

**THE SPEAKER  
LEGISLATIVE ASSEMBLY**

## **AUDIT RESULTS REPORT**

- **Annual Assurance Audits**
- **Across Government Benchmarking Audits**

The first part of this report under section 24 of the *Auditor General Act 2006* (AG Act) covers assurance audits completed since 29 October 2012 and includes:

- opinions and results of audits on the controls, financial statements and key performance indicators of the four universities and 11 state training providers (formerly TAFE colleges) for the year-ended 31 December 2012
- opinions and results of audits of eight university subsidiaries
- other audit opinions issued, including cemetery boards, request audits and audit certifications of financial and statistical information produced by agencies to discharge conditions of Commonwealth funding, grants and other legislation and Royalties for Regions program agreements.

This finalises my reporting on the 2012 audit cycle.

The second part of this report under section 25 of the AG Act details the findings of two recently completed across government benchmarking audits: Recording, Custody and Disposal of Portable and Attractive Assets, and Control of Funds Held for Specific Purposes.

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

COLIN MURPHY  
AUDITOR GENERAL  
15 May 2013

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# Auditor General's Overview



The first part of this report includes a summary of the annual assurance audits of the public universities, their subsidiaries and the state training providers for the year-ended 31 December 2012 and other audits completed since 29 October 2012. This brings to a close my reporting on the 2012 annual audit cycle.

All of the universities and state training providers received clear audit opinions on their financial statements, controls and key performance indicators. There was again a slight decrease in the number of financial control weaknesses that needed to be reported to management. I have however reported more information system control weaknesses mainly because of a greater audit focus on security related aspects of systems. All four universities and three state training providers achieved better practice status for their good financial controls and reporting practices in 2012, an improvement on the previous year.

The second part of this report covers two across government benchmarking audits. These audits build on the annual assurance audits and are aimed at providing an indication to Parliament and agency management of how agencies are performing relative to each other on common business practices.

The audit of Recording, Custody and Disposal of Portable and Attractive Assets did not identify any evident overall improvement in the management of these assets since our similar audit in 2010. The audit of Control of Funds Held for Specific Purposes found that all sampled expenditure was in accordance with the purpose for which funds were held but there was room for improvement in the policies and procedures at most agencies in our sample.

# PART 1: ANNUAL ASSURANCE AUDIT RESULTS

## Executive Summary

This report contains the audit findings from the annual assurance audits of the universities and state training providers that had a 31 December 2012 reporting date. It also includes the finalisation of other 2012 audits not previously reported. This report, along with the *Audit Results Report – Annual 2011-12 Assurance Audits* (Report 14, November 2012), finalises the 2012 assurance audit cycle.

### Key Findings

#### Audit Opinions

- Clear audit opinions on financial statements, controls and KPIs were issued to the four public universities, eight university subsidiaries (financial statements only) and the 11 state training providers with a reporting date of 31 December 2012. (Refer pages 7 to 9)
- Eight audit opinions have been issued to a range of other agencies since 29 October 2012. A further 24 certifications have also been issued. (Refer pages 19 to 22)
- The Legal Contribution Trust received a qualified opinion on its financial statements, controls and KPIs for the six months ended 31 December 2012 because interest revenue was understated. (Refer page 20)

#### Management Issues

- 83 financial and management control weaknesses were reported to universities and state training providers which was slightly less than last year. Thirty per cent were unresolved issues from the prior year. (Refer page 10)
- 132 information system control issues were identified in 2012 of which 52 (39 per cent) were unresolved issues from previous audits. This was considerably higher than the number of findings in 2011 but was due in part to an increased audit focus this year on security issues. (Refer page 12)
- All four universities and three state training providers were rated as better practice agencies for their good financial controls and reporting practices in 2012. In the previous year two universities and three state training providers achieved this status. (Refer page 13)

#### Financial Performance

- Three of the state's four public universities were generally low risk in 2012 when measured against five key indicators for assessing financial performance. (Refer pages 15 to 17)

## Recommendation

Universities, state training providers and other agencies should ensure that financial management and information systems 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. (Page 13)

# Audit Opinions for Universities and State Training Providers

- Clear audit opinions on financial statements, controls and KPIs were issued to the four public universities, eight university subsidiaries (financial statements only) and the 11 state training providers with a reporting date of 31 December 2012.

In 2012 the public tertiary education sector comprised four universities and four metropolitan and seven regional state training providers.

Total revenue for the Western Australian public tertiary education sector in 2012 was \$3.1 billion (universities \$2.5 billion and state training providers \$599 million), including Commonwealth and State funding. Controlled assets totalled \$6.6 billion (universities \$5.3 billion and state training providers \$1.3 billion).

Management of the universities and state training providers 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 state training providers to prepare their financial statements. Use of standard presentation formats allows comparability of operations. For 2012 the models were provided by:

- Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education for universities.
- Western Australian Department of Training and Workforce Development for state training providers.

## Summary of Audit Opinions

For the year-ended 31 December 2012, clear audit opinions were issued on the financial statements, controls and KPIs of the four universities and 11 state training providers (refer to Table 1).

The Auditor General is required to issue an opinion to the responsible Minister for each agency audited. The opinion will relate to the financial statements and, depending on each agency's enabling legislation, may also relate to controls and key performance indicators (KPIs):

- financial statements – assurance that the financial statements and supporting notes are materially complete, accurate, reliable and comply with relevant legislation and applicable accounting standards
- controls – assurance that the internal control systems and procedures, manual and computerised, are adequate and ensure that financial transactions comply with legislative requirements

## Audit Opinions for Universities and State Training Providers

- key performance indicators – assurance that the KPIs are relevant, appropriate, based on reliable data and fairly present the performance of the agency in achieving its desired outcomes.

	Opinion Issued
<b>Universities</b>	
Curtin University of Technology	14/03/2013
Edith Cowan University (ECU)	12/03/2013
Murdoch University	15/03/2013
The University of Western Australia (UWA)	11/03/2013
<b>State Training Providers</b>	
Central Institute of Technology	28/02/2013
Challenger Institute of Technology	13/03/2013
CY O'Connor Institute	06/03/2013
Durack Institute of Technology	14/03/2013
Goldfields Institute of Technology (01/07/2012-31/12/2012) [First six months of this new agency – KPIs not reported.]	07/03/2013
Great Southern Institute of Technology	13/03/2013
Kimberley Training Institute	14/03/2013
Pilbara Institute	13/03/2013
Polytechnic West	11/03/2013
South West Institute of Technology	28/02/2013
West Coast Institute of Training	06/03/2013

**Table 1: Dates opinions issued**

## Opinions on Universities' Subsidiaries

Some university activity is undertaken through subsidiary companies. The audit opinions for these subsidiaries relate to financial statements only as they are not required to submit KPIs. 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 2012 were all clear opinions and are listed in Table 2.

	Opinion Issued
<b>Universities' Subsidiaries</b>	
<b>Edith Cowan University</b>	
ECU Resources for Learning Ltd	23/04/2013
ECU Resources for Learning Ltd [trading as STEPS Professional Development (New Zealand Branch)] (Final Audit to 30/09/2012)	23/04/2013
<b>Murdoch University</b>	
Innovative Chiropractic Learning Pty Ltd	08/03/2013
Murdoch Retirement Services Pty Ltd	08/03/2013
Murdoch University Foundation	27/03/2013
Murdoch University Veterinary Trust	08/03/2013
<b>The University of Western Australia</b>	
The University Club of Western Australia Pty Ltd	25/03/2013
UWA Accommodation Services Pty Ltd	13/03/2013

**Table 2: Dates opinions issued**

*Annual reports of subsidiaries are not required to be tabled in Parliament.*

# Management Issues at Universities and State Training Providers

- 83 financial and management control weaknesses were reported to universities and state training providers which was slightly less than last year. Thirty per cent were unresolved issues from the prior year.
- 132 information system control issues were identified in 2012 of which 52 (39 per cent) were unresolved issues from previous audits. This was considerably higher than the number of findings in 2011 but was due in part to an increased audit focus this year on security issues.
- All four universities and three state training providers were rated as better practice agencies for their good financial controls and reporting practices in 2012. In the previous year two universities and three state training providers achieved this status.

## Financial 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 KPIs. Internal controls can relate to governance processes, financial and human resource management and information system procedures.

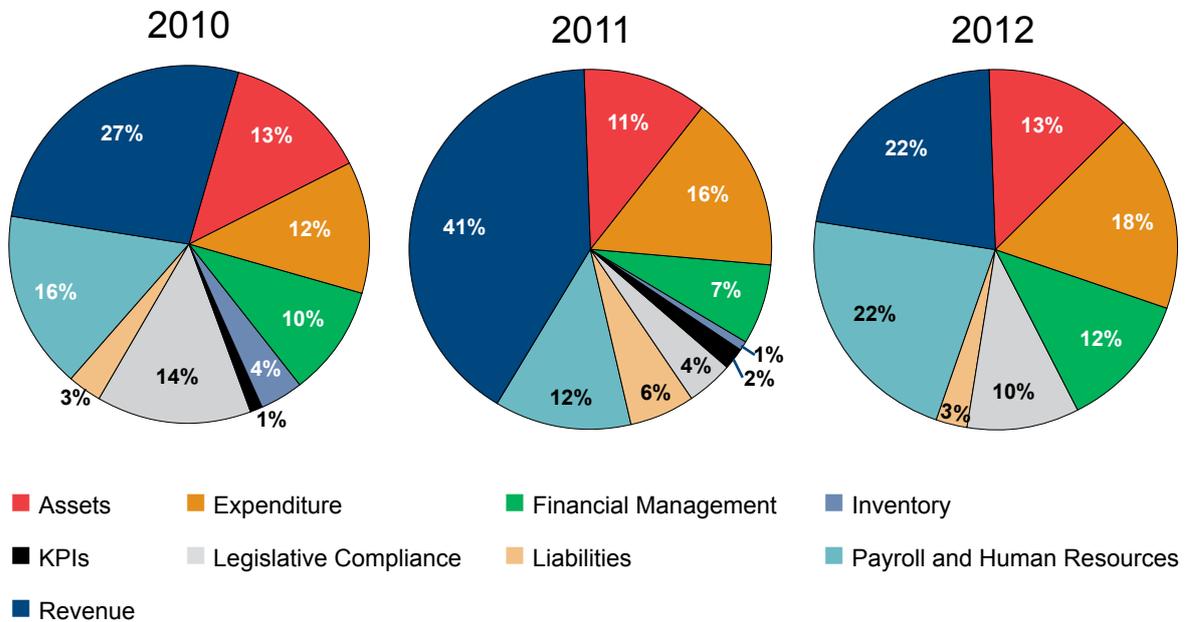
The *Auditor General Act 2006* (AG Act) requires the Auditor General to audit agency accounts and to form an opinion on controls. In forming our opinion, we assess compliance with key aspects of legislation and the reliability of internal control systems and procedures to record and report reliable financial information and KPIs.

A total of 83 financial and management weaknesses were reported to management at universities and state training providers in 2012. Four were rated as significant and require prompt attention by the agency. Twenty-five (30 per cent) were unresolved prior year issues at seven of the agencies with more than half relating to revenue and expenditure controls. Action to address control weaknesses needs to be given greater priority to ensure the continuing integrity of the financial management systems of universities and state training providers.

2009	2010	2011	2012
62 issues	111 issues	94 issues	83 issues

**Table 3: Number of financial control and reporting weaknesses identified at universities and state training providers**

A breakdown of the types of control weaknesses identified in 2012 and the two preceding years is shown in Figure 1. Our analysis found no strong overall trends in the types of control weaknesses.



**Figure 1: Control weaknesses, other than IS controls, reported to universities and state training providers for the last three years**

*Most control weaknesses related to revenue, payroll and human resources, and expenditure*

Revenue control weaknesses reported to management included:

- concession or discount eligibility on student fees was not always checked or recorded for verification purposes
- updating of course fee charges and costing of corporate courses were not routinely reviewed for accuracy to ensure that students or corporate clients are charged the correct fee
- no evidence of independent review of daily banking summaries to confirm accuracy of banking and posting to correct income accounts.

Payroll and human resource control weaknesses reported include:

- lack of review of payroll certification reports by cost centre managers. In the tertiary education sector where lecturing staff employment is often part-time or casual, the review of payroll certification reports by cost centre or faculty managers is important to provide assurance that staff are paid correctly for the hours they have worked.
- timesheets not prepared by staff and/or not signed by a supervisor as evidence of hours worked

- incomplete termination documentation on staff personal files. Completed exit sheets help prevent errors such as payroll overpayments or staff access to computer systems remaining active after they resign.

Other frequently occurring control weaknesses identified in 2012 were:

- credit card policies and procedures not routinely applied including cardholders exceeding authorised limits, voucher splitting, approval of accounts not performed by an appropriate senior officer, and accounts not submitted in a timely manner with all supporting vouchers
- accounting journal entries processed without a description of their purpose and/or not reviewed or appropriately authorised
- capitalisation of assets, especially work in progress, not reported accurately and timely, impacting the valuation of assets and depreciation expense.

The above types of control weaknesses make it more likely that errors or fraud may occur and/or not be detected.

## Information System Controls

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 audited IS controls at the four universities, the four metropolitan state training providers and three of the regional training providers. The regional training providers are audited on a rotation basis.

We identified 132 information system control weaknesses in 2012. By comparison, we identified 85 weaknesses in 2011 and 108 in 2010. This increase is due to greater focus on security and auditing a newly created state training provider in 2012. In this year's series of audits 70 per cent of weaknesses were rated as moderate, requiring action to be taken as soon as possible. Another 29.5 per cent were identified as minor. There was only one significant weakness identified and the agency has rectified the issue.

It is of concern that 52 of the issues raised in 2012 (39 per cent) were unresolved issues from previous audits. This is only a slight improvement from 2011 where 41 per cent were carried over. A large proportion of these outstanding issues are not expensive to resolve or require specialist resources.

Security findings accounted for 46 per cent. This is an increase from 2011 (32 per cent) and reflects the greater focus on security related issues. The other findings related mainly to operations, including the processing and handling of information, backup, support, restart and recovery, monitoring and logging usage, and reporting and review of

access privileges. If not addressed, these issues have the potential to compromise the confidentiality, integrity and availability of computer systems.

Our annual Information Systems Audit Report for 2013, which is expected to be tabled in mid-2013, will provide more detail of our IS audit results.

### Recommendation

**Universities, state training providers and other agencies should ensure that financial management and information system 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.**

## Timeliness and Quality of Financial Reporting

The universities and state training providers generally submitted their draft financial statements and KPIs in a timely manner after year-end so that the audit process could commence. However, improvement at some agencies is still needed to the quality of the draft financial statements and supporting working papers. This can be achieved by implementing better internal quality assurance processes before submitting them for audit.

## Better Practice Agencies

All four universities and three state training providers demonstrated better practice in managing their financial reporting and controls in 2012 (refer Table 4) compared to two universities and three state training providers in 2011.

Our criteria for agencies to achieve better practice status include:

- clear opinions on their financial statements, controls and KPIs
- audit ready early, ideally by 31 January
- good quality financial statements and KPIs, supported by reliable working papers and submitted for audit within the agreed timeframe
- management resolution of accounting standards and presentation issues
- key staff available during the audit process
- assessment of the number and significance of control weaknesses raised in management letters.

Universities	State Training Providers
Curtin University of Technology	Central Institute of Technology
Edith Cowan University	Challenger Institute of Technology
Murdoch University	West Coast Institute of Training
The University of Western Australia	

**Table 4: Better practice for 2012 financial controls and reporting**

# Financial Performance Information for Universities and State Training Providers

- Three of the state's four public universities were generally low risk in 2012 when measured against five key indicators for assessing financial performance.
- Three state training providers had low liquidity at year-end and have also returned operating deficits for three successive years. Their financial performance needs to be closely monitored in 2013.

## Universities' Financial Performance

The Commonwealth department that funds universities has a number of benchmark indicators for assessing the financial performance of universities. 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 2010 to 2012 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. The Commonwealth considers a ratio of more than one is low risk. Using this guideline, all four universities would be considered low risk in 2012.

Liquidity / Current Ratio	2010	2011	2012
Curtin	1.4	1.2	1.4
ECU	1.3	2.3	2.3
Murdoch	1.2	1.4	2.1
UWA	1.1	1.4	1.1

**Table 5: Liquidity ratio for 2010-2012 for universities**

*On this indicator, all four 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. The Commonwealth considers universities with 55 per cent or less of revenue from Australian Government funding to be low risk and between 55 to 65 per cent to be medium risk. Australian Government financial assistance includes

Commonwealth Grants Scheme and other grants, HECS-HELP payments and FEE-HELP. Curtin, Murdoch and UWA were considered low risk and ECU was considered medium risk for this indicator in 2012.

Diversity of Revenue (Dependence on Australian Government Funding)	2010	2011	2012
Curtin	48%	46%	51%
ECU	61%	62%	65%
Murdoch	56%	52%	48%
UWA	55%	56%	55%

**Table 6: Diversity of revenue (dependence on Australian Government funding) ratio for 2010-2012 for universities**

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

### Dependence on Overseas Student Fees

Some universities diversify their revenue sources by encouraging overseas students to study their courses. However, it is generally accepted that universities should not be overly dependent on this source of income. The Commonwealth considers universities with 15 per cent or less of operating revenue from fee-paying overseas students to be low risk and between 15 and 25 per cent to be medium risk. Based on these criteria, ECU, Murdoch and UWA universities continue to be considered low risk and Curtin has medium risk for this indicator. All four universities' dependency on revenue from overseas students declined in 2012.

International Student Fees Ratio	2010	2011	2012
Curtin	25%	25%	23%
ECU	18%	16%	15%
Murdoch	14%	14%	13%
UWA	11%	12%	11%

**Table 7: Fees from international students as a proportion of total operating revenue for 2010-2012**

*On this indicator, three 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 2012.

Operating Result / Operating Revenue	2010	2011	2012
Curtin	6%	11%	10%
ECU	6%	9%	7%
Murdoch	12%	13%	23%
UWA	7%	6%	12%

**Table 8: Operating result as a percentage of total operating revenue for 2010-2012**

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

Note: Murdoch received revenue of \$49 million from its subsidiary, Murdoch Retirement Services Pty Ltd, in 2012. Without this revenue the ratio would have been 11 per cent.

## Borrowings to Equity Ratio

Universities are permitted by their legislation to finance their activities by borrowing. The Commonwealth considers universities with seven per cent or less of their equity represented by borrowings to be low risk.

ECU increased its borrowings in 2012 by \$50 million to fund its building program. Whilst this indicator is classified as a high risk, ECU considers it has sufficient funds within its investment portfolio to meet all its debt obligations. The other three universities would remain low risk against this indicator for 2012.

Borrowings to Equity Ratio	2010	2011	2012
Curtin	3%	2%	2%
ECU	9%	5%	11%
Murdoch	4%	3%	1%
UWA	5%	5%	7%

**Table 9: Borrowings to equity ratio for 2010-2012**

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

Note: Curtin's borrowings exclude amounts for the Chemistry Centre which are offset by lease revenue.

## Financial Results of State Training Providers

Eight of the 11 state training providers generally ended 2012 in a satisfactory financial position. However it is of concern that CY O'Connor Institute, Kimberley Training Institute and Polytechnic West had year-end liquidity ratios below the generally accepted benchmark of 1.0. These three providers have also returned operating deficits since 2010. Although CY O'Connor Institute reduced their operating deficit for the 2012 reporting year to \$636 000, the 2012 operating deficits of Kimberley Training Institute (\$1 694 000) and Polytechnic West (\$11 567 000) were significantly higher than the previous year.

The three providers advised a number of reasons for their current financial position, with a common factor being depreciation expense for which they are not fully funded. An expected improvement in financial stability in 2013 was also a common response.

The Department of Training and Workforce Development advised that it will work with the state training providers during 2013 to monitor their financial position and liquidity, to ensure that the State's investment in vocational education and training achieves maximum value for money.

### Recommendation

**The financial performance and liquidity of state training providers should be closely monitored in 2013.**

# Other Audits and Reviews

- Eight audit opinions have been issued to a range of other agencies since 29 October 2012. A further 24 certifications have also been issued.
- The Legal Contribution Trust received a qualified opinion on its financial statements, controls and KPIs for the six months ended 31 December 2012 because interest revenue was understated.
- There was uncertainty among agencies as to whether certain types of assistance payments made by them should be treated as sponsorships or grants. Clear definitions and guidelines are required to improve accountability for government funded sponsorships and to ensure that any conflicts of interest are identified.

## Audit Opinions

In addition to universities, their subsidiaries and state training providers, the following opinions have been issued since 29 October 2012. Unless otherwise noted, the opinions relate to agencies' financial statements, controls and KPIs. This concludes the 2012 audit reporting.

31 December 2012 Reporting Date	Opinion Issued
<b>Statutory Authorities</b>	
Legal Contribution Trust – statutory audit for six months ending 31/12/2012 <i>(Qualified opinion on financial statements, controls and KPIs)</i>	15/03/2013
The Anzac Day Trust	13/03/2013
30 June 2012 Reporting Date	Opinion Issued
<b>Cemetery Boards – Audited under the <i>Cemeteries Act 1986</i></b>	
Financial statements only. No statutory deadline for the Boards to prepare their financial statements	
Albany Cemetery Board	19/12/2012
Bunbury Cemetery Board	13/02/2013
Geraldton Cemetery Board	07/12/2012
Kalgoorlie-Boulder Cemetery Board	11/12/2012
<b>Request Audits</b>	
Financial statements only. No statutory deadline for submission of financial statements for audit	
South West Cogeneration Joint Venture	13/12/2012
Final Audit	Opinion Issued
Financial statements and controls only	
Fire and Emergency Services Authority (01/07/2012 – 31/10/2012)	21/12/2012

**Table 10: Dates opinions issued and any qualifications**

## Qualified Opinion

The Legal Contribution Trust received a qualified audit opinion on its financial statements, controls and KPIs for the six months ending on 31 December 2012. Sufficient audit evidence could not be obtained as to the total amount of interest receivable on solicitors' trust bank accounts and interest earned on legal practitioners' trust money. Consequently, the Trust's efficiency KPI could also not be verified.

The Trust is entitled to receive 51 per cent of all interest earned on solicitors' trust bank accounts held with financial institutions in the State of Western Australia. In certain instances the financial institutions did not remit the correct amount of interest on some solicitors' trust accounts to the Legal Contribution Trust. At the present time, the Trustees are not able to quantify the amount of unremitted interest income that relates to the current and prior financial reporting periods. Management is taking steps to recover outstanding interest revenue.

## 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 State or 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 166 certifications are being reported to Parliament for activities largely occurring during the 2012 reporting cycle. Report 14, November 2012 detailed 142 certifications issued by 29 October 2012, including 124 under the Royalties for Regions program. A further 18 certifications are reported below in Table 11, and another six under the Royalties for Regions program are detailed in Table 12. Unless stated, the certifications were for the year-ended 30 June 2012. Managements' assertions were confirmed and no adverse reports were issued.

## Other Audits and Reviews

Client	Certification Relates to	Date Issued	
Chemistry Centre (WA)	<b>Nutrient Filter Pilot Trial, Ellenbrook:</b> Financial statement for the period 01/07/2012 – 30/09/2012	20/03/2013	
Commissioner of Main Roads	<b>Black Spot Projects under the Nation Building Program (National Land Transport) Act 2009</b>	11/12/2012	
	<b>Interstate Road Transport Act 1985</b>	11/12/2012	
	<b>Nation Building Program (National Land Transport) Act 2009</b>	17/12/2012	
Commonwealth Department of Regional Australia, Local Government, Arts and Sport	<b>Indian Ocean Territories – Service Delivery Arrangements</b>	13/12/2012	
Country Housing Authority	<b>Regional Infrastructure Funding program</b> for 2006 grant year	14/11/2012	
	<b>Western Australian Regional Initiatives Scheme</b> for 2004 grant year	14/11/2012	
Department of Education	<b>Bilateral Agreement on the Nation Building and Jobs Plan:</b> The Building the Education Revolution (BER) Program for Primary Schools for the 21st Century, the National School Pride Program and the Science and Language Centres for 21 <sup>st</sup> Century Secondary Schools.	15/02/2013	
	<b>Digital Education Revolution National Partnership</b>	31/01/2013	
Family Court of Western Australia	<b>Family Law Act 1975:</b> Commonwealth-State Agreement	07/03/2013	
Fire and Emergency Services Superannuation Board	<b>Australian Prudential Regulation Authority (APRA)</b> annual return forms	31/10/2012	
	<b>Australian Securities and Investments Commission:</b> Australian financial services license return under <i>Corporations Act 2001</i>	31/10/2012	
	<b>Legislative Compliance Superannuation Industry (Supervision) Act (SIS) 1993</b> – Registrable Superannuation Entity (RSE) Licensee Responsibilities	31/10/2012	
	<b>Trustee Company audit report</b>	31/10/2012	
Public Transport Authority of Western Australia	<b>National Partnership Agreement on the Implementation of Major Infrastructure Projects in Western Australia 2009-14:</b>	• Perth City Link Project	14/12/2012
		• Grain Freight Re-Sleeping Project	14/12/2012
Western Australian Land Authority	<b>Australian Government Housing Affordability Fund Capital Works Funding Agreement:</b>	• Broome North Project	31/10/2012
		• Mandurah Junction Project	31/10/2012

**Table 11: Certifications issued (29 October 2012 to 8 May 2013)**

## Royalties for Regions

A further six certifications were issued since 29 October 2012 for 2011-12 Statements of Receipts and Payments under the Royalties for Regions program.

The certifications for each recipient agency reported that the Statement of Receipts and Payments is in accordance with the Memorandum of Understanding between the agency and Department of Regional Development and Lands.

Certifications were issued to the following agencies for approved projects for the 2011-12 year unless noted otherwise.

Delivering Agency	Royalties for Regions approved projects	Date Certification Issued
Department of Corrective Services	Community Safety Network (Regional Radio Network Replacement Program)	18/12/2012
Department of Environment and Conservation	Kimberley Science and Conservation Strategy Tourism Components	15/04/2013
Fire and Emergency Services Authority	Community Safety Network (Regional Radio Network Replacement Program)	18/12/2012
Housing Authority	Improving Water Quality in Remote Aboriginal Communities	31/10/2012
	Kalgoorlie Indigenous Visitor Hostel	09/11/2012
WA Country Health Service	Patient Assisted Travel Scheme (01/07/2012 – 31/03/2013)	12/04/2013

**Table 12: Royalties for Regions certifications issued**

## Review of Sponsorships by Government Agencies

A preliminary review was performed of procedures and controls over sponsorship payments made by seven agencies. A full audit was not undertaken for various reasons, including an assessment that significant findings were unlikely.

The review sought to assess whether the agencies had adequate policies and procedures and were managing and monitoring sponsorships in a way that is consistent with government direction. These sponsorships included payments to community groups, sporting organisations and other non-government organisations. The review did not cover whether Government is getting value for money from the sponsorships.

## Other Audits and Reviews

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Sponsorship is defined in the State Supply Commission guidelines as the purchase of the right to associate the agency's name, product or services with the sponsored organisation's service, product or activity in return for negotiated benefits. Agencies are required to ensure that the sponsored subject, event or organisation is compatible with the agency's role, business, goals, objective and image. The total value of sponsorship expenditure by all agencies is not recorded or reported.

A common finding was that there is inadequate guidance to agencies as to whether payments should be regarded as grants or as sponsorships. The current guidelines were issued by the State Supply Commission in 2001 and it was apparent that updated guidelines could help to remove uncertainty in this regard – several agencies had arrangements that appeared to be sponsorships but the agencies advised Audit that they regarded them as grants.

Three agencies did not have sponsorship policies and two had prepared draft policies after we informed the agencies that we would be performing a review.

At three of the seven agencies there was no evidence of a conflict of interest review by management to confirm that the sponsorship was consistent with agency objectives and that the sponsored organisation was not involved with activities that are inconsistent with government policy or sound ethical practice.

### Recommendation

**Guidelines for sponsorships should be reviewed and updated to suit the current operating environment of agencies. They should include clear definitions and require conflict of interest declarations.**

## **PART 2**

# **ACROSS GOVERNMENT BENCHMARKING AUDITS**

Recording, Custody and Disposal of Portable and Attractive Assets  
Control of Funds Held for Specific Purposes

# Recording, Custody and Disposal of Portable and Attractive Assets

## Background and What We Did

Government agencies commonly own and control a substantial portfolio of portable and attractive assets including televisions, laptops, smartphones, tablets and audio-visuals. Some agencies may also own other types of more specialised equipment such as power tools, microscopes, and global positioning systems. Due to their portable and attractive nature, adequate controls over their location and custodianship and having appropriate disposal procedures are important to minimise theft or misuse.

Treasurer's Instruction 410 (TI 410) aims to ensure proper stewardship of assets and appropriate information for financial reporting and insurance. It establishes a mandatory lower limit of \$5 000 for recording items of property, plant and equipment in the financial statements but also requires appropriate records and protection for assets costing less than \$5 000. TI 410 is considered by us to represent good practice in the management of attractive assets though not all government entities are required to comply with it<sup>1</sup>.

Specifically TI 410 requires:

- The accountable authority shall ensure that registers are maintained of physical assets controlled by the agency with a value of more than \$5 000 and with a total useful life of more than two years
- The accountable authority shall ensure that appropriate records are maintained of other assets controlled by the agency
- The accountable authority shall ensure that appropriate measures are taken to protect assets of minor value that are portable and attractive.

We last audited the management of attractive assets in 2010 when we reported on practices at sixteen agencies. In this audit we assessed the practices of nine different agencies and one from our 2010 audit. The period of audit was from 1 January 2012 to the date of the audit.

Our objective was to determine if agencies are properly managing their portable and attractive assets. The audit sought to answer three questions:

- Do agencies have adequate policies and procedures for managing portable and attractive assets?
- Are there adequate controls to record and track portable and attractive assets?
- Do agencies follow appropriate disposal procedures?

For the purpose of this audit, our focus was on any desirable and portable assets that cost less than \$5 000. It did not include consumables or intangibles, such as copyrights and licences.

The audit was conducted in accordance with Australian Auditing and Assurance Standards.

<sup>1</sup> Applies to all government departments and those statutory authorities listed in schedule 1 of the *Financial Management Act 2006*

### Conclusion

Overall, there has been no evident improvement in the management of attractive assets since our similar audit in 2010. Most of the 10 agencies included in this audit needed to improve their policies and/or practices for recording, custody and disposal of portable and attractive assets. In particular, there was a need to keep their records accurate and to periodically monitor the custody of these assets through stocktakes.

### What Did We Find?

- Of the 10 agencies audited, only the Botanic Gardens and Parks Authority and the Economic Regulation Authority were rated as “good” against all three criteria. It was pleasing to note that the Botanic Gardens and Parks Authority which was also included in our 2010 audit had improved their management of these assets since that audit.
- Eight agencies had policies and procedures in place for the management of portable and attractive assets. However, some of these policies require improvement. For example, the policies and procedures of one of the agencies lacked any definition of portable and attractive assets and for two agencies, the policies and procedures did not outline how to respond to thefts, losses and damages. The absence of an adequate policy and clear and established procedures to address requirements and risks will increase the likelihood of portable and attractive assets being misplaced or stolen.
- Eight agencies had common problems with the accuracy of records. Incomplete, out-of-date or inaccurate records undermine the effective monitoring and management of portable and attractive assets:
  - assets could not be located at four agencies (11 of 98 assets tested, or 11 per cent)
  - incorrect custodian, location or identification recorded on the register at eight agencies (61 of 355 assets tested, or 17 per cent)
  - no custodian, location or identification recorded on the register at five agencies
  - assets physically sighted were not recorded on the register at three agencies (25 of 67 assets tested, or 37 per cent)
  - the register had not been updated more than a month after portable and attractive assets were purchased at three agencies (21 of 150 assets tested, or 14 per cent)
  - at one agency, the register had not been updated following the stocktake that took place nine months previously
  - the adequacy of controls varied within the different business units at three of the large agencies we sampled which suggested a need for improved central oversight.

## Recording, Custody and Disposal of Portable and Attractive Assets

- Four agencies did not comply with their policies to conduct regular stocktakes. Periodic stocktakes are an important control to ensure that records are accurate and to detect loss, theft or misappropriation.
- Authorisation of asset disposals could not be found at three agencies and the reasons for disposal were not evident at four agencies. Asset disposals and the method of disposal should be approved following formal management decisions that give consideration to alternate use and the cost of replacement assets.

The following table is a summary of our findings. Agencies were rated on a three point scale of Poor, Fair or Good.

Agency	Policies and procedures	Records and monitoring	Disposal
Botanic Gardens and Parks Authority	Good	Good	Good
Curtin University of Technology *	Fair	Poor	Fair
Department of Commerce	Good	Poor	Poor
Economic Regulation Authority	Good	Good	Good
Forest Products Commission	Fair	Poor	Poor
Horizon Power *	Poor	Poor	Fair
Lotteries Commission	Good	Fair	Fair
Polytechnic West	Good	Fair	Good
West Coast Institute of Training	Good	Fair	Good
Western Power *	Poor	Fair	Fair

**Table 1: Agency ratings against our criteria**

*\* Not subject to TI 410 which we consider represents good practice and which we used as the broad criteria for assessment.*

### Recommendations

All agencies should ensure that:

- They have policies and procedures for managing portable and attractive assets, including acquisition, recording, identification, tracking, disposal and response to theft, damage or loss.
- Accurate and complete information on portable and attractive assets is included in a register, with description, location and custodian details.
- Periodic tracking activities, such as stocktakes, are conducted to properly monitor assets. This should include identification of any trends relating to loss, damage or theft.
- All disposals of portable and attractive assets are formally authorised and documented by appropriately delegated personnel.

### Agency Responses

Agencies in our sample generally accepted the recommendations and advised that they will improve their policies and procedures to ensure that the recording, custody and disposal of portable and attractive assets are in accordance with best practice so that they are well managed and protected.

# Control of Funds Held For Specific Purposes

## Background and What We Did

Many agencies hold moneys that are required to be spent or distributed for specific purposes. These range from State and Commonwealth grants totalling hundreds of millions of dollars to much smaller amounts received through private donations. The purpose for which these funds are to be used is generally specified in legislation or the provider imposes a legal/contractual requirement as to how the funds should be spent. Effective management and processes are required to ensure that funds are used for intended purposes.

Treasurer's Instruction (TI) 806 is the applicable TI that helps govern specific purpose money. It requires that:

- The accountable authority shall ensure compliance with the accountability and stewardship of specific purpose money; and
- The accountable authority shall implement procedures that ensure the rights and obligations of donors and recipients are adequately documented.

Our objective was to determine if agencies are properly managing their funds held for specific purposes and in particular that they are using restricted cash in accordance with relevant legislation and/or the relevant purpose. The audit sought to answer two questions:

- Are sound policies and documented procedures in place for managing the funds?
- Was expenditure in accordance with the intended purpose?

A sample of eight agencies was selected, ranging from the Metropolitan Health Service which had 655 accounts totalling \$66 million to Department of Fisheries which had four accounts to the value of \$2.6 million. The purposes of the accounts included grant moneys for purchasing specific equipment or for specific projects, and funds held for specific research and training. A total of \$30.8 million payments from accounts totalling \$159 million were tested.

The audit was conducted in accordance with the Australian Auditing and Assurance Standards.

## Conclusion

All sampled expenditure was in accordance with the purpose for which funds were held though one agency needed to improve accounting practices to more transparently demonstrate that the specific purpose funds it holds are used for the correct purpose. Policies and procedures for managing the funds were good at two of the eight sampled agencies but the other six agencies had room for improvement.

### What Did We Find?

- Of the agencies audited, only the Police Service Western Australia and the Aboriginal Affairs Planning Authority were rated as “good” against all criteria.
- Only four agencies had policies and procedures in place for the management of moneys held for specific purposes. The absence of an adequate policy and clear and established procedures to address requirements and risks increases the likelihood of funds being spent on other than intended purposes.
- Two agencies were reporting security deposits and bonds as part of the agencies’ assets in their financial statements, whereas they were moneys held in trust and therefore not the assets of the agency. This overstated the agencies’ assets by \$264 000 in total.
- Three agencies did not have appropriate agreements with the donor organisations to support the purpose for which the restricted funds were held. Without appropriate supporting agreements there is an increased risk that funds will not be managed effectively.
- Instances were noted where accounts established for specific purposes had negative balances. This occurred where a project was funded by both specific purpose and general purpose funds. The agency’s practice was to initially make all payments from the specific purpose accounts and subsequently reimburse the overdrawn specific purpose accounts using general purpose funds. This carries the risk that if reimbursements are not made, the specific purpose funds will have been used for general operational purposes.

The following table is a summary of our findings. Agencies were rated on a three point scale of Poor, Fair or Good.

## Control of Funds Held For Specific Purposes

Agency	Policies and procedures	Effectiveness of controls	Reporting
Aboriginal Affairs Planning Authority	Good	Good	Good
Department of Agriculture and Food	Poor	Good	Good
Department of Fisheries	Poor	Good	Fair
Department of Mines and Petroleum	Fair	Good	Good
Department of Water	Poor	Fair	Poor
Gaming and Wagering Commission	Good	Fair	Good
The Minister in his Capacity as the Deemed Board of the Metropolitan Public Hospitals (Metropolitan Health Service)	Good	Poor	Good
Police Service Western Australia	Good	Good	Good

**Table 1: Agency ratings against our criteria**

## Recommendations

All agencies should ensure that:

- They have policies and procedures for managing funds held for specific purposes, including necessary information contained in the agreements, appropriate recordkeeping and reporting in the financial statements.
- Agreements with donor agencies and individuals are documented and clearly state the purpose for which the funds are held.

## Agency Responses

Agencies in our sample generally accepted the recommendations and advised that they will improve their policies and procedures to ensure that the funds held for specific purposes are managed in accordance with best practice.

# Glossary

AASB	Australian Accounting Standards Board
Agency	Term used to describe clients audited by the Auditor General, including departments, statutory authorities, corporations, subsidiaries, cemetery boards and request audits.
AG Act	<i>Auditor General Act 2006</i>
Assurance audit	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.
Clear opinion (or unqualified opinion)	Auditor General's opinion expressed when an audit concludes that in all material respects the financial statements and KPIs are presented fairly in accordance with the enabling legislation of the agency, Australian Accounting Standards (including Australian Accounting Interpretations) and the Treasurer's Instructions.
Contract audit	Audit of an agency undertaken by an appropriately qualified individual or firm, on behalf of the Auditor General, appointed under a contract.
FM Act	<i>Financial Management Act 2006</i>
IS	Information systems, primarily computerised systems
KPI	Key performance indicator - information about service performance or outcome achievement
Management letter	Letter to agency management that conveys significant audit findings and results of the audit. A copy is also sent to the responsible Minister.
Materiality	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.
Qualified opinion	Auditor General's opinion expressed when an audit identifies that the financial statements or KPIs 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.
Significance	Relative importance in the circumstances, in relation to audit objectives, of an item, event or information, or problem the auditor identifies.
TI	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.

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13	Implementation of the National Partnership Agreement on Homelessness in Western Australia	24 October 2012
12	Major Capital Projects	17 October 2012
11	Second Public Sector Performance Report 2012 <ul style="list-style-type: none"> <li>– Business Continuity Management by Port Authorities</li> <li>– Western Australian Natural Disaster Relief and Recovery Funding</li> <li>– Housing's Implementation of the Head Contractor Maintenance Model</li> </ul>	26 September 2012
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9	Public Sector Performance Report 2012 <ul style="list-style-type: none"> <li>– Regional Procurement</li> <li>– Department of Commerce Support to the Plumbers Licensing Board</li> <li>– Ministerial decision not to provide information to Parliament on the amount of funding tourism WA provided for the Perth International Arts Festival</li> </ul>	28 June 2012
8	New Recruits in the Western Australia Police	20 June 2012
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