Office of the Auditor General
Western Australia

7th Floor Albert Facey House
469 Wellington Street, Perth

Mail to:
Perth BC, PO Box 8489
PERTH WA 6849

T: 08 6557 7500
F: 08 6557 7600
E: info@audit.wa.gov.au
W: www.audit.wa.gov.au

National Relay Service TTY: 13 36 77
(to assist people with hearing and voice impairment)

We can deliver this report in an alternative format for those with visual impairment.

© 2017 Office of the Auditor General Western Australia. All rights reserved. This material may be reproduced in whole or in part provided the source is acknowledged.

ISSN: 2200-1913 (Print)
ISSN: 2200-1921 (Online)
FINANCIAL CONTROLS – FOCUS AREA AUDITS 2016-17

This report has been prepared for submission to Parliament under the provisions of section 25 of the Auditor General Act 2006 and details the findings of 4 recently completed audits:

- Agency contract registers
- Management and oversight of internal audit
- Financial delegations
- Recording, custody and disposal of portable and attractive assets.

We conducted these audits at a sample of agencies as an extension of our annual financial audits, using more detailed testing than is required for forming our audit opinions. Our aim was to assess how well the agencies perform common business practices and related controls.

The findings of this report provide an insight to good practice, so all agencies including those not audited, can consider their own performance.

I wish to acknowledge the cooperation of the staff at the agencies included in this audit.

COLIN MURPHY
AUDITOR GENERAL
7 November 2017
Appendix 1: Revised agency names after Machinery of Government changes on 1 July 2017
Auditor General’s overview

This report contains the results of our audits of 4 areas of common business practice and related controls. These audits were performed as an extension of our 2016-17 annual financial audits at 15 agencies, covering:

- Agency contract registers
- Management and oversight of internal audit
- Financial delegations
- Recording, custody and disposal of portable and attractive assets.

Our audit of agency contract registers assessed whether agencies are comply with Treasurer’s Instruction 820 *Register of Contracts*, effective from September 2016, and whether contract registers record key information about their contracts. Overall, most agencies’ contract registers either did not have all key information required by Treasurer’s Instruction 820 or the information was incorrect. However, we found that agencies generally had adequate records of contract renewals and variations.

The Management and oversight of internal audit considered selected aspects of the internal audit function, whether audit findings were actioned in a timely manner, and assessed the oversight of internal audit by audit committees. Our findings were generally satisfactory.

Our audit of Financial delegations evaluated whether agencies have implemented suitable financial delegations and are complying with those delegations. The audit covered key financial delegations, including procurement, payments, payroll and journal entries. We found that delegations had been set and were being complied with for most key transactions, however accounting journal entries were being approved by staff who had not been formally delegated their authority.

For our audit of Recording, custody and disposal of portable and attractive assets, we evaluated whether agencies have adequate controls for attractive assets that are not required to be reported in the financial statements. We found that controls over recording and tracking these assets had not improved since our similar audit in 2013.

Overall, these audits showed some room for improvement in all 4 areas. I trust this report provides an insight to good practice, so all agencies including those not audited, can consider their own performance.
Agency Contract Registers

Background

Contracting is an integral part of the way governments conduct business. The Western Australian (WA) Government is a significant purchaser of goods and services. These purchases comprise thousands of transactions and involve billions of dollars annually. Contracts vary in size, complexity, value, duration and risks, and therefore require robust, but properly scaled, contract management processes.

Maintaining a comprehensive contract register is essential for effective contract management and accountability. It enables agencies to better manage their contractual responsibilities as well as meet their financial reporting obligations. It assists management to monitor contracts, manage contract extensions and commence new procurement in a timely manner.

Treasurer’s Instruction 820 Register of Contracts, which was gazetted on 1 July 2016 and came into effect in September 2016, requires accountable authorities to maintain a contract register that records key contract information.

Conclusion

Most agencies’ contract registers either did not have all key information required by Treasurer’s Instruction 820 or had incorrect/incomplete data. However, the majority had adequate records of contract renewals and variations.

What we did

The objective of this audit was to assess whether agencies are complying with Treasurer’s Instruction 820 and that their contract registers record key information about their contracts.

We assessed the contract registers of 15 agencies using the following lines of inquiry:

1. Are agencies maintaining comprehensive registers of all contracts with a value of more than $50,000 as required by Treasurer’s Instruction 820?

2. Do agency contract registers include key information regarding the number and value of contract renewals and variations?

The following agencies were included in this audit:

<table>
<thead>
<tr>
<th>Agency</th>
<th>Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child and Adolescent Health Service</td>
<td>Rottnest Island Authority</td>
</tr>
<tr>
<td>Commissioner of Main Roads</td>
<td>South Metropolitan Health Service</td>
</tr>
<tr>
<td>Department of Commerce</td>
<td>WA Country Health Services</td>
</tr>
<tr>
<td>Department of Lands</td>
<td>Western Australian Electoral Commission</td>
</tr>
<tr>
<td>Department of Local Government and Communities</td>
<td>Western Australia Police Service</td>
</tr>
<tr>
<td>Department of Training and Workforce Development</td>
<td>Western Australian Tourism Commission</td>
</tr>
<tr>
<td>Department of Water</td>
<td>WorkCover Western Australia Authority</td>
</tr>
<tr>
<td>Lotteries Commission</td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Agencies included in the audit

We conducted this audit under section 18 of the Auditor General Act 2006 and in accordance with Australian Auditing and Assurance Standards.

1 These agency names were applicable at the time of our audit. See Appendix 1 for revised agency names following Machinery of Government changes on 1 July 2017.
What did we find?

We commenced our audit fieldwork in March 2017, more than 5 months after Treasurer’s Instruction 820 was introduced, and as many agencies already had contract registers, we expected to find comprehensive information in the registers.

Four agencies maintained comprehensive contract registers. The other 11 agencies need to ensure that their contract registers are accurate and up-to-date, and contain all key information required by Treasurer’s Instruction 820. At Department of Commerce and Department of Lands, we found contract extensions that were approved in excess of officers’ delegated limits. We also found that Department of Water did not always perform adequate reviews of contractor performance before approving contract extensions.

Agencies had adequate policies and procedures relating to maintenance of their contract registers

Nine agencies had adequate policies and procedures for maintaining contract registers. However, 6 agencies did not have a policy for recording contracts. Without a formal procedure and policy, there is no clear guidance to staff regarding which contracts to record and no clear assignment of responsibility for maintaining the register. In addition, at Department of Lands and the Rottnest Island Authority, access to amend the contract register was not restricted to authorised staff only.

Treasurer’s Instruction 820 provides guidance to agencies with a view to complete and accurate contract registers. This includes dollar thresholds for contracts to be included in the register, as well as implementing formal procedures for maintaining the contract register and clear assignment of responsibility.

Agencies need to ensure that their contract registers have all key information

To enable management to effectively monitor contracts, it is essential for contract registers to include all key details. Treasurer’s Instruction 820 specifies the minimum information to be included in agency contract registers.

Completeness of contract registers

We reviewed the agency contract registers to confirm they contained the minimum information required by Treasurer’s Instruction 820. Child and Adolescent Health Service, Lotteries Commission, Commissioner of Main Roads, Western Australian Tourism Commission and WorkCover Western Australia Authority maintained comprehensive registers of all their contracts.

Ten agencies were not recording all key information required by Treasurer’s Instruction 820 (5):

- at 3 agencies, the register did not include details of approved contract variations, such as number and value of each variation, and the total value of variations
- at 6 agencies, the register did not include the scheduling of contractor performance reviews. This is important contract management information that helps ensure timely reviews of contractor performance prior to exercising contract extension options
- at Department of Lands, the register did not include the estimated dollar value of contracts at commencement.
In addition, at 4 agencies the following information was not recorded in all instances:

- information on approved contract variations, such as the number and dollar value of individual variations, and the total value of approved variations. Lack of this information could limit the ability of an agency to effectively track the cumulative value of contract variations, evaluate the impact on the original contract scope, and initiate separate procurement processes where appropriate

- final contract value

- start and final expiry date of the contract

- details of contract extensions

- scheduling of contractor performance reviews

- the counterparty contact details

- the name and position of the contract manager.

**Accuracy of contract registers**

We reviewed a sample of 116 contracts, totalling $1.3 billion, at the 15 agencies to test the accuracy of information. Nine agencies maintained accurate and up-to-date records for the contracts sampled. At the other 6 agencies, we identified the following shortcomings:

- at 5 agencies, the contract value for 10 of 43 contracts was incorrectly recorded in the contract register. These included over and under-statements

- at 6 agencies, the contract start date for 12 of 58 contracts was incorrectly recorded in the contract register.

Agencies generally record all contracts over $50,000 in their contract registers. However, at Department of Commerce and Department of Lands, we noted 15 out of 42 and 2 out of 4 contracts respectively, that were awarded and published on Tenders WA during the period 1 July 2016 to the date of the audit, but were not recorded in their contract registers.

**Most agencies had adequate records for contract extensions or renewals**

A contract extension is the exercise of a contract option to extend the agreed terms for a further period. This may also involve changes to price, personnel and/or services. Contract extensions should be negotiated and agreed after adequate review of the contractors’ performance and be approved by a delegated authority.

The contract register should include details of scheduled performance review dates, to ensure the review occurs before the expiry of the contract. This will give management adequate opportunity to test the provider’s price in the current market, and/or assess whether the contractor still offers best value for money.

We tested a sample of 91 contracts totalling $397 million for evidence that, where contract extensions were available, contractor performance reviews had been scheduled and performed in a timely manner, before an appropriately delegated officer approved each contract extension. Twelve agencies had adequate processes in place for the extension of contracts. At the other 3 agencies, we identified the following shortcomings:

- At 2 agencies, 2 of 21 contract extensions were not approved in accordance with approved delegation limits. This included:
  - 1 extension, valued at $143,704, which was not approved at Department of Commerce. The extension was required to be approved by the Director General.
  - 1 extension at Department of Lands, valued at $79,550, had no evidence of approval.
In addition, 2 contracts at Department of Lands, valued at $528,000 and $300,000, and one contract variation of $280,108, were approved by various officers with delegated approval limits of $250,000 each.

Significantly exceeding delegation limits or failure to obtain approval represents a lack of accountability and can mean that commitments are entered into without sufficient justification and/or budget support.

- At Department of Water, no formal contractor performance review was performed for 3 of 5 contracts, before the contract extension was approved. This increases the risk that poor performing contractors were granted extensions.
- At Department of Commerce, the date of the last completed performance review for 4 of 13 contracts was either not updated or incorrectly recorded in the contract register. In addition, for 9 of 10 contracts that had remaining extension options, the date of the next contractor performance review was not updated in the register.

Recommendations

1. All WA government agencies should:
   a. ensure the completeness and accuracy of their contract register by having formal policies and procedures for maintaining the register, including clear assignment of responsibility
   b. update their contract register to include all key information, comprising the minimum information requirements specified in Treasurer’s Instruction 820. They should also consider including additional information based on their assessment of the significance, number and complexity of their contractual arrangements
   c. ensure that all new contracts, extensions and variations are approved by officers within their delegated authorisation limits. The delegation register should provide clear guidelines for the approval of contract extensions and variations
   d. improve review processes relating to contract extensions, including comprehensive and timely performance reviews before exercising contract extension options.

Agency responses

Agencies in our sample generally accepted our recommendations and confirmed that they either have, or will improve their policies and practices for maintaining complete and accurate contract information.
Management and Oversight of Internal Audit
Background

Internal audit is a key component of an organisation’s governance. Although the role of internal audit may vary across organisations, it typically provides management with objective and independent assessments of controls, risk management, and governance processes. In so doing, internal audit helps management to achieve desired outcomes, and to know when objectives and goals are not being achieved.

Treasurer’s Instruction (TI) 1201 *Structure of the Internal Audit Function* requires the accountable authority to establish and maintain an effective internal audit function. The TI is mandatory for agencies that fall under the *Financial Management Act 2006*, and its principles are also relevant to most other organisations.

Conclusion

Agencies had good annual internal audit plans, and management and audit committees were monitoring actions to implement internal audit recommendations, with implementation generally timely. Agencies were also effectively contract managing outsourced internal audit services. Although audit committees were adequately monitoring internal audit activity, most agencies did not use formal performance measures to assess the effectiveness of internal audit.

What we did

The focus of this audit was to assess whether agencies have suitable policies and practices to maintain an effective and independent internal audit function. We assessed the policies and practices at 13 agencies during 2016-17, using the following lines of inquiry:

1. Is there an annual internal audit plan in place and has it been developed using a risk-based strategy and provided relevant coverage of the agency’s finances and operations?

2. Were internal audit reports reviewed by the audit committee and findings acted on by management and followed up by internal audit?

3. Does the audit committee use performance measures to assess the effectiveness of the internal audit function?

4. Where internal audit services are partially or wholly outsourced, are the agency’s contract management processes adequate?

The following agencies were included in this audit:

<table>
<thead>
<tr>
<th>Agencies</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of the Premier and Cabinet</td>
<td>Electricity Networks Corporation (Western Power)</td>
</tr>
<tr>
<td>Department for Child Protection and Family Support</td>
<td>Gold Corporation</td>
</tr>
<tr>
<td>Department of Fire and Emergency Services</td>
<td>Insurance Commission of Western Australia</td>
</tr>
<tr>
<td>Department of Mines and Petroleum</td>
<td>Metropolitan Redevelopment Authority</td>
</tr>
<tr>
<td>Department of Transport</td>
<td>Public Transport Authority of Western Australia</td>
</tr>
<tr>
<td>Economic Regulation Authority</td>
<td>Racing and Wagering Western Australia</td>
</tr>
<tr>
<td>Electricity Generation and Retail Corporation (Synergy)</td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Agencies included in the audit 2

These agency names were applicable at the time of our audit. See Appendix 1 for revised agency names following Machinery of Government changes on 1 July 2017.
We conducted this audit under section 18 of the Auditor General Act 2006 and in accordance with Australian Auditing and Assurance Standards.

**What did we find?**

Western Power displayed good policies and practices to maintain an effective and independent internal audit function across all our lines of inquiry. Our findings at other agencies were generally satisfactory, with some room for improvement.

**Agencies had adequate risk based internal audit plans covering finances, operations and compliance**

We assessed whether internal audit plans provided adequate coverage of the major business areas and information technology systems, and whether they aligned with and mitigated the agency’s key risks.

We found all the agencies in our sample had drawn up an annual internal audit plan based on their risk profile, providing relevant coverage.

Across 12 agencies 26,815 hours, or an average of 2,234 hours, were allocated to conduct internal audits during 2016-17. The audit coverage was 27% finance, 49% operations and 24% compliance.

The Department of Mines and Petroleum did not indicate the planned duration of audits in its audit plan.

**Agencies were adequately considering internal audit reports and monitoring the implementation of recommendations**

We assessed whether audit plans were completed in a timely manner, audit committees gave due consideration to the audit reports, management promptly responded to internal audit findings and internal audit followed up on implementation of recommendations.

We found that at all 13 agencies, internal audit lines of reporting were appropriate, with direct reporting to the audit committee or board. The agencies had planned to conduct 156 internal audits during 2016-17. At 30 June 2017, they had completed 102 audits, 34 audits were in progress, and 20 were deferred or cancelled, with the approval of the audit committee.

Internal audit made 437 recommendations in the 102 audits completed. At year-end, across 8 agencies, 32 of the 437 recommendations were past their due date for implementation. This included 2 significant recommendations, however these were being regularly followed up by internal audit and the audit committee.

We identified the following shortcomings:

- At 3 agencies management had, for no discernible reason, taken more than a month to provide responses to internal audit findings. Delayed responses generally contribute to delays in management co-ordinated action.

- The Department of the Premier and Cabinet and the Economic Regulation Authority completed their 2016-17 audit plans by year-end. The Department of Fire and Emergency Services only achieved 43% completion of their annual audit plan. This was partly because the previous year's audit plan was completed during 2016-17. The other 10 agencies had achieved between 63% and 89% completion by year-end. Untimely execution of the internal audit plan delays the detection and remedying of business exposure to risks.
Agencies did not use formal performance measures to assess the effectiveness of internal audit

We tested whether management or the audit committee used performance measures to assess the effectiveness of the internal audit function.

Eight agencies had not established formal performance measures for assessing internal audit’s effectiveness. The Department of Transport and Metropolitan Redevelopment Authority had performance measures, but these had not been approved by the accountable authority. The absence of formal measurement of internal audit’s performance may result in missed opportunities to maximise its effectiveness.

However, we did find, as noted above, that audit committees were monitoring internal audit’s progress towards the annual audit plan, reviewing the status of outstanding audit recommendations and scrutinising audit findings and recommendations, and endorsing internal audit’s reports.

Agencies were effectively managing their outsourced internal audit function

Ten agencies had fully outsourced their internal audit function. The Department of Mines and Petroleum and Synergy had partly outsourced, and only the Department for Child Protection and Family Support had a full in-house audit function.

We identified the following contract management shortcomings:

- Under State Supply Commission policies, contracts above $50,000 are required to be published on the Tenders WA website. The Economic Regulation Authority and Metropolitan Redevelopment Authority did not publish their internal audit contracts on Tenders WA. Non-compliance with State Supply Commission policies impacts the transparency and integrity of government procurement.

- We could not find evidence that the audit committee at the Public Transport Authority of Western Australia had endorsed the appointment of an external firm as the Authority’s internal audit service provider. Although not mandatory, audit committee endorsement of the choice of internal audit service provider would be consistent with better practice.

Recommendations

1. Agencies should:
   a. ensure that management comments and commitment to action internal audit findings are provided in a timely manner after the draft audit report is issued
   b. ensure that internal audit recommendations are promptly implemented
   c. use formal performance measures to assess the effectiveness of internal audit
   d. publish contract award and contract variation details on Tenders WA where required by State Supply Commission policies.
Agency responses

Agencies in our sample generally accepted the recommendations and confirmed that where relevant, they have either amended policies and practices or will improve management of the internal audit function.

The Department of Fire and Emergency Services was concerned that comments in respect to its internal audit activity did not reflect the amount of auditing undertaken. It advised that additional resources were assigned in 2015-16 and 2016-17 to do more audits, above those set out in its 3 year rolling audit plan. It also advised that although 3 (or 43%) of the planned 2016-17 audits were completed, a total of 10 audit reports from the 2015-16 and 2016-17 audit plans were completed during 2016-17 with a further 6 audits in progress.
Financial Delegations
Background

Financial delegations are a vital part of organisational controls that ensure appropriately skilled, management appointed personnel perform key functions, including approval of financial transactions. Delegations are also used to minimise bureaucracy and increase the efficiency of authorisation and decision-making in agencies. Key financial delegations include those for procurement, payments, payroll and journal entries. If well implemented, delegations can save costs while minimizing the risk of fraud or error resulting from inappropriate approval of transactions.

Financial delegations are governed by the Financial Management Act 2006 and Treasurer’s Instructions (TIs) particularly TI 107 Authorisations and TI 304 Authorisation of Payments. In 2008 we reported on the delegation framework at 5 agencies, where we found that all agencies examined had an established delegation framework in place, that transactions complied with the delegation framework and internal procedures were performed by appropriate officers.

This audit assessed the practices at 15 agencies for the period 1 July 2016 to 30 June 2017.

Conclusion

Agencies had suitable policies and practices and maintained registers of financial delegations which have been communicated to relevant staff. Most delegations have been approved by management and correctly implemented into relevant systems, and staff were complying with the delegations. However, management had not set delegations for the approving of accounting journal entries.

What we did

The objective of this audit was to assess whether agencies had implemented suitable instruments of financial delegation and were complying with those delegations. The audit covered the use of financial delegations in procurement, payments, payroll and accounting journal entries. We sampled a total of 835 transactions across the 15 agencies.

We used the following lines of inquiry to assess the agencies’ policies and practices:

1. Do agencies have suitable policies relating to financial delegations?
2. Are registers of financial delegations complete and communicated to all relevant staff?
3. Are management approved delegations correctly implemented in agency systems?
4. Are staff complying with their delegations?

The following agencies were included in this audit:

<table>
<thead>
<tr>
<th>Agency</th>
<th>Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of the Legislative Assembly</td>
<td>Public Sector Commission</td>
</tr>
<tr>
<td>Department of the Legislative Council</td>
<td>Road Safety Commission</td>
</tr>
<tr>
<td>Department of Regional Development</td>
<td>South Metropolitan Health Service</td>
</tr>
<tr>
<td>Department of Sport and Recreation</td>
<td>Western Australian Health Promotion Foundation</td>
</tr>
<tr>
<td>East Metropolitan Health Service</td>
<td>Western Australian Planning Commission</td>
</tr>
<tr>
<td>Legal Aid Commission of Western Australia</td>
<td>Western Australian Institute of Sport</td>
</tr>
<tr>
<td>Office of the Director of Public Prosecutions</td>
<td>Western Australian Land Information Authority (Landgate)</td>
</tr>
<tr>
<td>Parliamentary Services Department</td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Agencies included in the audit

---

3 These agency names were applicable at the time of our audit. See Appendix 1 for revised agency names following Machinery of Government changes on 1 July 2017.
We conducted this audit under section 18 of the Auditor General Act 2006 and in accordance with Australian Auditing and Assurance Standards.

What did we find?

Agencies had adequate delegation policies in place relating to procurement, payments and payroll. Delegations had been formally set by management, and were documented in appropriate registers, that were communicated to staff, usually via the agency’s Intranet. System enforced delegations, where applicable, were operating effectively. We did not identify any non-compliance with management’s approved delegations.

Agencies did not have management approved delegations for approving accounting journal entries

Most agencies in our sample did not have policies relating to the approval of accounting journal entries. Only 2 agencies had management approved delegations that specified monetary limits for approving these important transactions. As a consequence accounting journals, some of high value, were approved by staff without delegated authority. In addition, we found instances at South Metropolitan Health Service and Landgate where journal entries were input to the system without independent approval.

Accounting journals frequently represent significant adjustments to previously approved accounting entries and should therefore be subject to appropriate approval requirements and delegations. Without these controls, there is an increased risk of fraud and errors, although we did not identify any fraud during this audit.

Recommendations

1. Agencies should ensure that:
   a. registers of financial delegations are complete and that staff do not perform key functions without formal delegation
   b. approval of accounting journal entries is governed by management approved delegations
   c. where appropriate, delegations should indicate where the preparer and the approver of a transaction is to be a separate person.

Agency responses

Agencies in our sample generally accepted our recommendations and confirmed that they either have, or will improve their policies and practices for ensuring appropriate instruments of financial delegations are maintained.
Recording, Custody and Disposal of Portable and Attractive Assets
Background

With increased use of technology, including more portable devices, the number of attractive assets in the public service is constantly increasing. Although individually of relatively low value, good management of these assets helps to contain expenses.

For purposes of this audit, we regarded portable and attractive assets as those lower value assets which, because of their nature and portability, carry a higher risk of being misused or stolen. Common examples of portable and attractive assets held by agencies include laptops, smartphones, tablets and audio-visual equipment. Some agencies may also own other types of more specialised equipment such as power tools, microscopes, and global positioning system devices. Because of the higher risk of misuse or theft, it is important that agencies maintain strong controls over the location, custody and disposal of these assets.

The value of many portable and attractive assets is below the threshold for including them as assets in agencies’ annual financial statements. It is nevertheless important that agencies keep good records of the assets. Treasurer’s Instruction (TI) 410 provides a framework for managing asset records and requires agencies to maintain records for all assets, including portable and attractive assets. It also requires agencies to put practices in place to protect low value portable and attractive assets.

We last reported on the management of portable and attractive assets in 2013. In that audit, we assessed 10 agencies and found a need for agencies to improve their policies and practices. We found a need for more accurate recordkeeping and to periodically monitor the existence and custody of assets.

Conclusion

Agencies need to significantly improve their policies and practices for managing portable and attractive assets. Overall, we could not find 11% of the assets we sampled, which is consistent with the results of our similar 2013 audit. We found that most agency records of portable and attractive assets were incomplete or inaccurate. There are also opportunities for some agencies to reduce administrative costs by reassessing the types and values of assets that they record and track. A few agencies were generally not following appropriate disposal procedures.

What we did

The objective of this audit was to determine if agencies are properly managing their portable and attractive assets.

We assessed the portable and attractive asset registers of 15 agencies using the following lines of inquiry:

1. Do agencies have adequate policies and procedures for managing portable and attractive assets?
2. Are there adequate controls to record and track portable and attractive assets?
3. Do agencies follow appropriate disposal procedures?
The following agencies were included in this audit:

<table>
<thead>
<tr>
<th>Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animal Resources Authority</td>
</tr>
<tr>
<td>Commissioner for Children and Young People</td>
</tr>
<tr>
<td>Department of Agriculture and Food</td>
</tr>
<tr>
<td>Department of Education</td>
</tr>
<tr>
<td>Department of Fisheries</td>
</tr>
<tr>
<td>Department of Parks and Wildlife</td>
</tr>
<tr>
<td>Department of Planning</td>
</tr>
<tr>
<td>Department of the Attorney General</td>
</tr>
<tr>
<td>Department of Treasury</td>
</tr>
<tr>
<td>Disability Services Commission</td>
</tr>
<tr>
<td>Health Support Services</td>
</tr>
<tr>
<td>Housing Authority</td>
</tr>
<tr>
<td>Mental Health Commission</td>
</tr>
<tr>
<td>Office of the Environmental Protection Authority</td>
</tr>
<tr>
<td>Western Australian Greyhound Racing Association</td>
</tr>
</tbody>
</table>

Table 1: Agencies included in the audit

In total, the agencies had 30,816 assets recorded on their registers with a value exceeding $35 million.

We conducted this audit under section 18 of the Auditor General Act 2006 and in accordance with Australian Auditing and Assurance Standards.

What did we find?

Agencies need to improve their policies and procedures

A key requirement of TI 410 is to maintain records that facilitate the identification, management and maintenance of assets. It is also important that policies and procedures clearly define which assets are portable and attractive, and include processes for regularly updating asset records.

We found that 8 of the 15 agencies had good policies and procedures for managing portable and attractive assets. While the remaining 7 agencies did have policies and procedures, they were not comprehensive.

Common deficiencies in agency policies and procedures included:

- No examples of the types of assets included in the definition of portable and attractive assets (7 agencies)
- No requirements or process for identifying portable and attractive assets, i.e. asset tags (7 agencies)
- Little or insufficient guidance on the process for responding to the loss of an asset (7 agencies)
- No documentation about how assets should be disposed of, including who can authorise the disposal (5 agencies)
- No guidance about how portable and attractive assets are to be tracked (4 agencies)
- No guidance about the personal use of assets (12 agencies).

---

4 These agency names were applicable at the time of our audit. See Appendix 1 for revised agency names following Machinery of Government changes on 1 July 2017.
Asset registers did not always contain enough information to monitor and track assets properly

While all agencies had registers of their portable and attractive assets, we found that registers for 8 agencies did not contain all information need to properly track and monitor the assets.

To ensure that portable and attractive assets are managed effectively, it is important that agency registers include a description of the asset, the cost (for insurance purposes), any unique identification numbers such as serial number and asset tags and the identity of the asset custodian or location.

Figure 1 shows the types of information that was missing from the 15 agencies’ records.

![Figure 1: Number of agencies with information missing from their registers](image)

Agencies have discretion when setting appropriate limits for recording portable and attractive assets. Seven agencies took a conservative approach, requiring all portable and attractive assets with values less than $5,000 to be recorded. This results in significant administrative costs of recording all such assets. The remaining agencies have nominated a minimum purchase cost of $500, $1,000 or $1,500. We did not find evidence that management had considered whether specific types of assets costing less than these limits should be recorded and tracked.

We also found instances where assets which do not meet the definition of portable and attractive assets were being included in agency registers. For example, the Department of Parks and Wildlife included rain water tanks and wall mounted white boards in their portable and attractive assets register, whereas these were already recorded in the accounting asset register.

Only 3 agencies had accurate asset registers

We reviewed a sample of 267 assets at the 15 agencies to test whether information on portable and attractive asset registers was reliable. 134 were selected from agency registers to determine whether the asset existed and whether the information in the register was correct. A further 133 were randomly selected from agency premises to ensure that they were completely and accurately recorded in the asset register.

We found that only the Animal Resources Authority, Department of Planning and Department of Treasury had accurate and reliable portable and attractive asset registers. All other agencies had deficiencies in their records.

From the 134 assets selected from asset registers, we could not find 15 (11%) of the assets. There were also 34 assets (26%) we identified at agency premises which were not recorded in the agencies' records.
We also found that:

- almost half of the assets tested (48%) did not have the asset custodian recorded in the register and a further 6% had incorrect custodian information

- 30% of assets did not have an identification tag. For assets which did have a physical identification tag, there were 15 instances where the tag number was not recorded in agency records.

- information about the location of assets was incorrect for 38 assets.

Periodic stocktakes are an important control to ensure that records are accurate and to detect loss, theft or misappropriation. Information gained from stocktakes is useful in reviewing trends of loss, damage and theft. Agency stocktakes often identify missing assets which may have been lost or stolen. While most agencies were regularly performing stocktakes of portable and attractive assets, Health Support Services and Housing Authority did not have regular stocktake processes. In addition, the Department of Parks and Wildlife did not have regular stocktakes of local property registers maintained at regional offices.

**Agencies were correctly disposing of portable and attractive assets**

Appropriate data security and disposal processes are crucial for portable and attractive assets that contain sensitive and confidential information such as laptops, tablets/iPads and mobile phones. We found that agencies generally had good processes for removing sensitive data prior to disposing of portable and attractive assets. In this audit however, we did not test a sample of assets to confirm that data had been removed.

We noted that 6 agencies were not regularly updating their records for asset disposals, which contributed to the inaccuracies in asset records reported above. From our sample of 35 disposals, only 54% were approved and processed in a timely manner.

We found that:

- for 3 disposals, there was no documentation to evidence that the disposals were approved. This also resulted in incorrect information in the asset register

- for 4 stolen assets originally costing $2,400, no insurance claims were submitted and there was no evidence to indicate that the police were notified

- 2 assets were incorrectly recorded as having been disposed of.
Recommendations

1. All WA government agencies should ensure that:
   a. they have policies and procedures for managing portable and attractive assets, including acquisition, recording, identification, tracking, disposal and response to theft, damage or loss
   b. they periodically re-assess the types and values of portable and attractive assets that require recording and tracking, so that relevant risks continue to be balanced against administrative costs
   c. their registers include sufficient details for effective and efficient management of portable and attractive assets
   d. registers are updated in a timely manner if assets are stolen, lost or disposed of.

2. Periodic tracking activities, such as stocktakes, are conducted. This should include identification of any trends relating to loss, damage or theft for risk management purposes.

3. All disposals of portable and attractive assets are formally authorised.

Agency responses

Agencies in our sample generally accepted our recommendations and confirmed that they will improve their policies, procedures and practices for ensuring that the recording, custody and disposal of portable and attractive assets are in accordance with best practice.

The Housing Authority acknowledged the findings and recommendations and advised that it will soon implement an enhanced control framework and is investigating a cost effective, automated electronic approach to portable and attractive asset stocktakes.
### Appendix 1: Revised agency names after Machinery of Government changes on 1 July 2017

<table>
<thead>
<tr>
<th>New agencies from 1 July 2017</th>
<th>Agency names in 2016-17 (during our audit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Biodiversity, Conservation and Attractions</td>
<td>Department of Parks and Wildlife</td>
</tr>
<tr>
<td>Department of Communities</td>
<td>Department for Child Protection and Family Support</td>
</tr>
<tr>
<td>Department of Education</td>
<td>Department of Local Government and Communities</td>
</tr>
<tr>
<td>Department of Jobs, Tourism, Science and Innovation</td>
<td>Department of Education</td>
</tr>
<tr>
<td>Department of Jobs, Tourism, Science and Innovation</td>
<td>Department of Education Services</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>Department of the Attorney General</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>Department of Corrective Services</td>
</tr>
<tr>
<td>Department of Local Government, Sport and Cultural Industries</td>
<td>Department of Culture and the Arts</td>
</tr>
<tr>
<td>Department of Local Government, Sport and Cultural Industries</td>
<td>Department of Local Government and Communities</td>
</tr>
<tr>
<td>Department of Local Government, Sport and Cultural Industries</td>
<td>Department for Racing, Gaming and Liquor</td>
</tr>
<tr>
<td>Department of Local Government, Sport and Cultural Industries</td>
<td>Department for Sport and Recreation</td>
</tr>
<tr>
<td>Department of Mines, Industry Regulation and Safety</td>
<td>Department of Commerce</td>
</tr>
<tr>
<td>Department of Mines, Industry Regulation and Safety</td>
<td>Department of Mines and Petroleum</td>
</tr>
<tr>
<td>Department of Primary Industries and Regional Development</td>
<td>Department of Agriculture and Food</td>
</tr>
<tr>
<td>Department of Primary Industries and Regional Development</td>
<td>Department of Fisheries</td>
</tr>
<tr>
<td>Department of Primary Industries and Regional Development</td>
<td>Department of Regional Development</td>
</tr>
<tr>
<td>Department of Planning, Lands and Heritage</td>
<td>Department of Aboriginal Affairs</td>
</tr>
<tr>
<td>Department of Planning, Lands and Heritage</td>
<td>Department of Lands</td>
</tr>
<tr>
<td>Department of Planning, Lands and Heritage</td>
<td>Department of Planning</td>
</tr>
<tr>
<td>Department of Planning, Lands and Heritage</td>
<td>Department of the State Heritage Office</td>
</tr>
<tr>
<td>Department of Water and Environmental Regulations</td>
<td>Department of Environment Regulation</td>
</tr>
<tr>
<td>Department of Water and Environmental Regulations</td>
<td>Department of Water</td>
</tr>
<tr>
<td>Department of Water and Environmental Regulations</td>
<td>Office of the Environmental Protection Authority</td>
</tr>
<tr>
<td>Police Service</td>
<td>Police Service</td>
</tr>
<tr>
<td>Police Service</td>
<td>Road Safety Commission</td>
</tr>
</tbody>
</table>

Source: Government Gazette
<table>
<thead>
<tr>
<th>Report number</th>
<th>2017 reports</th>
<th>Date tabled</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>Opinion on Ministerial Notification</td>
<td>1 November 2017</td>
</tr>
<tr>
<td>18</td>
<td>Diverting Young People Away From Court</td>
<td>1 November 2017</td>
</tr>
<tr>
<td>17</td>
<td>Management of Pastoral Lands in Western Australia</td>
<td>11 October 2017</td>
</tr>
<tr>
<td>16</td>
<td>Rich and Rare: Conservation of Threatened Species Follow-up Audit</td>
<td>6 September 2017</td>
</tr>
<tr>
<td>15</td>
<td>Opinion on Ministerial Notification</td>
<td>6 September 2017</td>
</tr>
<tr>
<td>14</td>
<td>Non-Clinical Services at Fiona Stanley Hospital</td>
<td>16 August 2017</td>
</tr>
<tr>
<td>12</td>
<td>Information Systems Audit Report</td>
<td>29 June 2017</td>
</tr>
<tr>
<td>11</td>
<td>Opinion on Ministerial Notification</td>
<td>29 June 2017</td>
</tr>
<tr>
<td>10</td>
<td>Timely Payment of Suppliers</td>
<td>21 June 2017</td>
</tr>
<tr>
<td>9</td>
<td>Opinion on Ministerial Notification</td>
<td>8 June 2017</td>
</tr>
<tr>
<td>8</td>
<td>Management of Medical Equipment</td>
<td>25 May 2017</td>
</tr>
<tr>
<td>7</td>
<td>Audit Results Report – Annual 2016 Financial Audits – Universities and TAFEs – Other audits completed since 1 November 2016</td>
<td>11 May 2017</td>
</tr>
<tr>
<td>6</td>
<td>Opinions on Ministerial Notifications</td>
<td>13 April 2017</td>
</tr>
<tr>
<td>5</td>
<td>Accuracy of WA Health’s Activity Based Funding Data</td>
<td>11 April 2017</td>
</tr>
<tr>
<td>4</td>
<td>Controls Over Purchasing Cards</td>
<td>11 April 2017</td>
</tr>
<tr>
<td>3</td>
<td>Tender Processes and Contract Extensions</td>
<td>11 April 2017</td>
</tr>
<tr>
<td>2</td>
<td>Opinion on Ministerial Notification</td>
<td>6 April 2017</td>
</tr>
<tr>
<td>1</td>
<td>Opinion on Ministerial Notification</td>
<td>30 March 2017</td>
</tr>
</tbody>
</table>