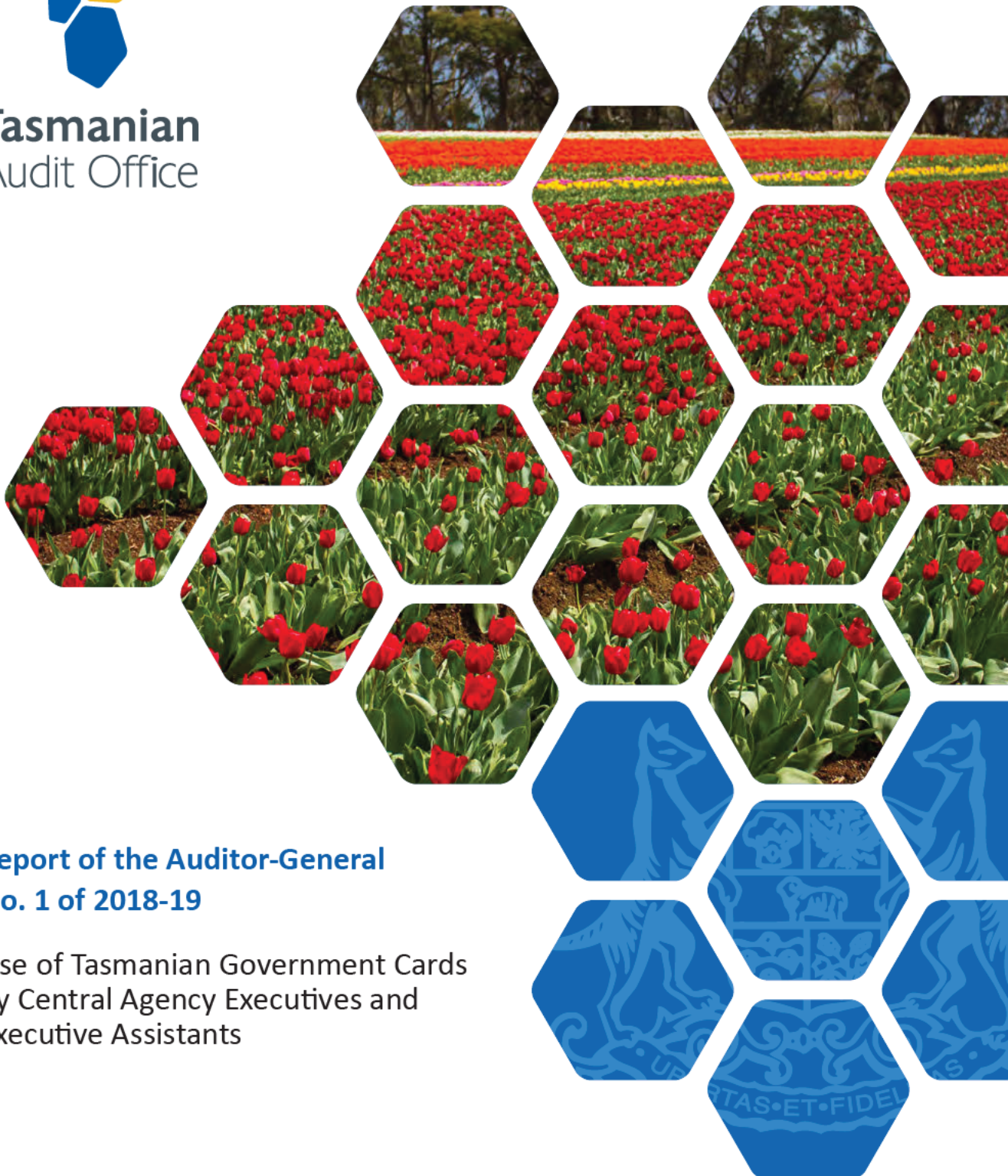




Tasmanian
Audit Office



**Report of the Auditor-General
No. 1 of 2018-19**

Use of Tasmanian Government Cards
by Central Agency Executives and
Executive Assistants

October 2018

THE ROLE OF THE AUDITOR-GENERAL

The Auditor-General's roles and responsibilities, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (*Audit Act*).

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

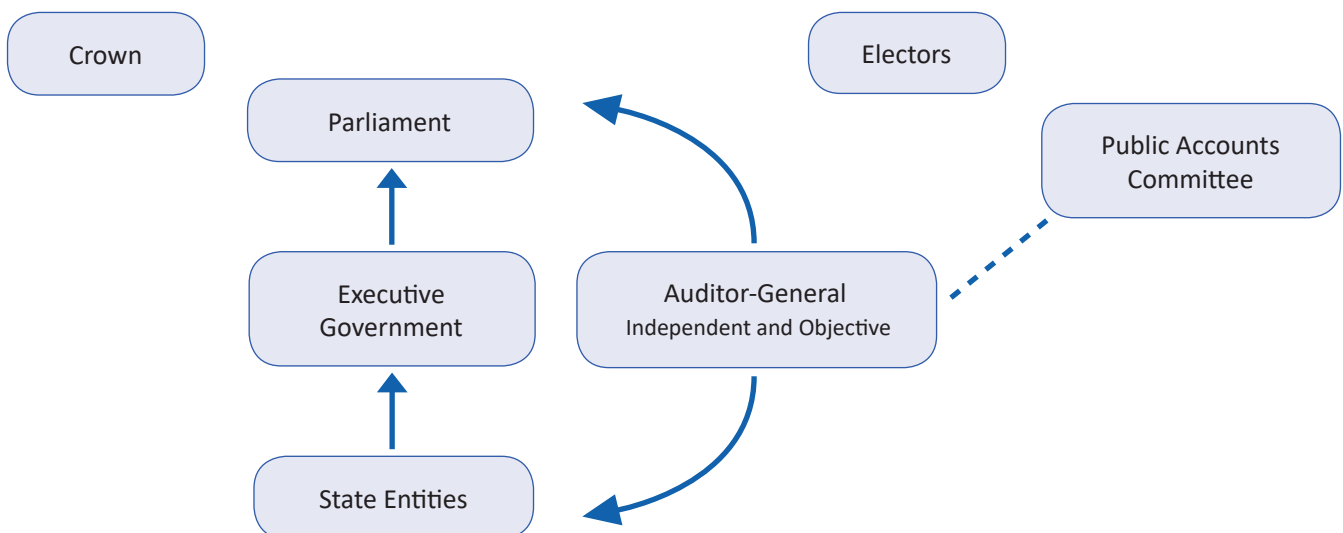
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

The Auditor-General's Relationship with the Parliament and State Entities

The Auditor-General's role as Parliament's auditor is unique.





**2018
PARLIAMENT OF TASMANIA**

**Report of the Auditor-General
No. 1 of 2018-19**

**Use of Tasmanian Government Cards by Central Agency Executives and
Executive Assistants**

October 2018

Presented to both Houses of Parliament pursuant to
Section 30(1) of the *Audit Act 2008*

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30 October 2018

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Ms Speaker

Report of the Auditor-General No. 1 of 2018–19: Use of Tasmanian Government Cards by Central Agency Executives and Executive Assistants

This report details the findings from our probity examination into the use of Tasmanian Government cards issued to Central Agency Executives and Executive Assistants. This examination addressed whether Central Agencies had effective controls over credit cards and was carried out under section 23 of the *Audit Act 2008*.

Yours sincerely

Rod Whitehead
Auditor-General

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EXECUTIVE SUMMARY

INTRODUCTION

The Tasmanian Audit Office's *Annual Plan of Work 2017-18* included an examination to assess the probity and propriety of purchases made using Tasmanian Government Cards (TGC) by Ministers, Ministerial advisors, departmental Secretaries and the Chief Executive Officer (CEO) of the Tasmanian Health Service (THS).

From our preliminary examination enquiries we identified:

- Ministers were not provided TGCs
- the only ministerial advisors with cards were Ministerial Chiefs of Staff.

Consequently, the examination scope was amended to also include all other key management personnel with TGCs in the Agencies. The in-scope cardholders are referred to as the 'selected persons' in this Report. Agencies covered by the review were:

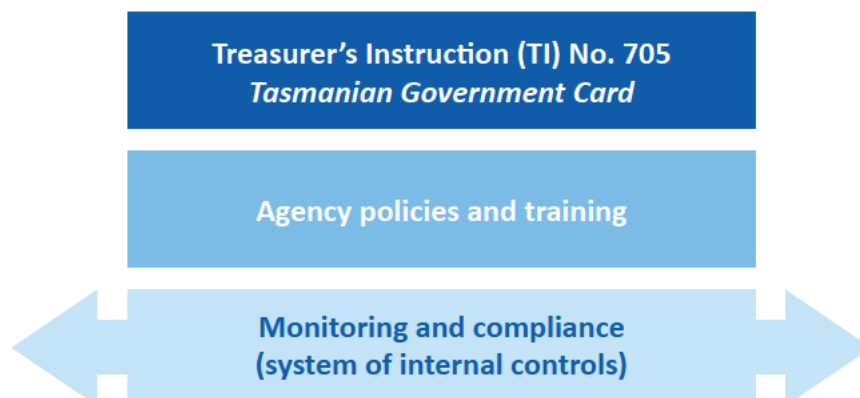
- Department of Education
- Department of Health and Human Services (now the Department of Health and Department of Communities Tasmania)
- Department of Justice
- Department of Police, Fire and Emergency Management
- Department of Premier and Cabinet
- Department of Primary Industries, Parks, Water and Environment
- Department of State Growth
- Department of Treasury and Finance
- THS.

Substantial Agency restructures took place with effect from 1 July 2018, however, this Report refers to Agencies as they were for the period covered by this examination, which was the 2017 calendar year.

Relevant legislation and regulations

Treasurer's Instruction No 705 *Tasmanian Government Card* (TI 705) (www.treasury.tas.gov.au/budget-and-financial-management/guidelines-instructions-and-legislation/treasurers-instructions) prescribes the terms and conditions for the use of TGCs. Individual Agency TGC policies were also considered where they prescribed additional terms and conditions on the use of TGCs, such as a restriction on the purchase of alcohol. We did not examine other policies within Agencies that may reference use of TGC, such as travel policies or general purchasing policies. The overall framework governing use of the TGC is shown in Figure 1 below.

Figure 1: Framework for TGC use



TI 705 states that the TGC achieves efficiencies through the rationalisation of ordering, authorisation, reconciliation and payment procedures, particularly for low value purchases. Agencies are not compelled to use the TGC. However, they should choose the most cost effective mode of payment.

The major benefits arising from the use of the TGC include:

- generating productivity gains to Agencies and the Government as a whole
- allowing the Government's suppliers to receive speedier payment
- reducing the paperwork associated with the purchasing and payment process for both the Government and its suppliers
- reducing the number of payments processed by Agencies.

TI 705 also states that the TGC is mandatory for all 'applicable payments' under \$1 000. Agencies, in developing their own TGC policies should define what payments are covered under 'applicable payments'. Examples given in TI 705 include travel, accommodation and food services, education and training, ad hoc repairs and maintenance and retail purchases.

OBJECTIVES AND SCOPE

The objective of this examination was to determine whether:

- Departmental Secretaries and the CEO of the THS maintained effective internal control over the use of TGCs
- TGC purchase transactions for the selected persons were appropriate and complied with TI 705 and applicable Agency policy.

The entire population of TGC transactions for the 2017 calendar year was \$38.4m, covering 197 405 transactions.

The scope of the examination covered TGC purchases made by the selected persons for the period 1 January to 31 December 2017. The value of transactions made by the selected persons for that period was \$799 636, covering 3 957 transactions across 98 cardholders.

EXAMINATION CRITERIA

The examination established criteria to measure how Agencies managed and controlled the use of TGCs issued to the selected persons. The criteria were based on relevant legislation and Agency policies and procedures. The examination criteria are as follows:

- Did departments and the THS comply with the internal control requirements of TI 705?
- Were TGC purchases in compliance with the requirements in TI 705 and Agency policies and procedures?

SUMMARY OF FINDINGS

Overall, the level of compliance with TI 705 was strong, although a small number of monthly reconciliations were not conducted in timely manner. Within the tested transactions, Agency controls detected most breaches (non-compliances with TI 705 or Agency policies or procedures), with the level of undetected breaches in the tested transactions being 19 of 522 transactions (3.6%) or \$11 601 of the \$251 252 (4.6%) value of transactions tested.

We expected breaches, not previously detected by Agency internal controls, to be less than 1.0% of the transactions examined. Our testing identified 10 (1.9%) of the 522 transactions examined that lacked appropriate documentation to support the purchase. The value of these transactions totalled \$9 377 (3.7%).

We also found an additional 32 transactions where a staff member other than the cardholder had made the purchase. The value of these transactions totalled \$44 309 (17.6%).

CONCLUSION

Agencies were generally compliant with TI 705. Although the examination found instances of policy and TI 705 breaches, these were relatively minor in number and value. We did not find evidence of serious or systemic misuse of public funds or any potentially fraudulent transactions that warranted further investigation.

RECOMMENDATIONS

Two recommendations for improvement were identified from our examination.

Recommendations
1. Agencies consider measures, for example, expense tracking applications for smartphones, to improve the collection and retention of documentation to support TGC purchases.
2. Agencies ensure there is a prohibition of card use by persons other than the cardholder, as intended by TI 705.

EXAMINATION COST

The cost of the examination was \$46 550.

SUBMISSIONS AND COMMENTS RECEIVED

In accordance with section 30(2) of the *Audit Act 2008*, a summary of findings, with a request for submissions or comments, was provided to the Secretaries of the Departments of Education, Health (covering the former Department of Health and Human Services and the Tasmanian Health Service), Justice, Police, Fire and Emergency Management, Premier and Cabinet, Primary Industries, Parks, Water and Environment, State Growth and Treasury and Finance, subject to this examination. Agency Heads agreed that the Department of Treasury and Finance would provide a response on behalf of all Agencies. This response is included in Appendix 1.

DETAILED FINDINGS

1. DID AGENCIES COMPLY WITH THE INTERNAL CONTROL REQUIREMENTS OF TI 705?

1.1 Did the Head of Agency:

- **maintain effective internal controls over the use of TGCs**
- **issue instructions covering specific department policies and procedures that apply to the TGCs?**

Our expectation was that every Agency would have its own TGC policy and that there would be strong controls established to detect and address breaches of that policy. Controls tested in this examination included:

- cardholder acknowledgment of their responsibilities in the use of the TGC
- new cards being signed immediately by the cardholder
- all TGC transactions were accounted for, monthly statements were reconciled and transactions were recorded in the general ledger on a timely basis
- transactions were in accordance with the Government's procurement policies.

Findings

All of the Agencies complied with TI 705.10 in determining systems of internal control.

All Agencies had specific TGC policies and procedures. Two of the Agencies incorporated the TGC policies and procedures into their broader finance policies and procedures. The other Agencies all had standalone policies and procedures specific to the use of TGCs.

Seven of the eight Agencies defined what they meant by 'applicable payments' and these largely adopted the examples used in TI 705.2, such as use for travel, accommodation and food.

In terms of policy review, we found five out of eight Agencies had revised or updated their TGC policy since the start of the review period, 1 January 2017.

1.2 Did the policies and procedures contain payment guidelines for the use of TGCs and were they consistent with TI 705?

Our expectation was that every Agency's TGC policy would contain payment guidelines for the use of TGCs, consistent with TI 705.

Findings

All Agencies had policies and procedures that were consistent with TI 705 as a minimum standard. We found instances of Agencies introducing more restrictive policies than TI 705. For example, four Agencies specifically prohibited the use of TGCs to purchase alcohol, including where that consumption occurred during business travel (currently allowed under TI 705).

1.3 Had the Head of Agency nominated an administering or controlling officer, responsible for:

- **ordering, issuing and cancelling cards**
- **updating policies and procedures**
- **ongoing education and training**
- **reviewing operation of the card facility, including reporting on usage and ensuring the TGC is cost effective?**

Our expectation was that every Agency would have a nominated person who was responsible for managing the TGCs within that Agency.

Findings

All Agencies had either a specific role or departmental team responsible for managing the Agency's TGC cards. In every case, this was done through the Agency's finance area.

There was a mix of approaches to training and education of cardholders when cards were issued. In three Agencies, a member of the finance team would meet with the cardholder and conduct a short training session. The other five Agencies issued copies of their policy and procedure documents to the new cardholder, accompanied by a Cardholder Acknowledgment Form. The card would then only be issued after receiving the signed acknowledgement, which included a statement the person had read and understood the conditions governing the use of TGCs.

No Agencies had a specific program of ongoing education and training. However, each stated that follow-up meetings with the cardholder were conducted by the administering person or unit when breaches were identified.

In regard to regular internal audits of TGCs:

- all Agencies had an internal audit function
- in four Agencies internal audit conducted reviews of the usage of TGCs at least every two to three years
- in two of the four Agencies above, the finance area also conducted monthly or quarterly reviews of TGC usage
- one other Agency's finance area conducted monthly or quarterly reviews of TGC usage
- all other Agencies relied on the manager's (card approver's) review and sign-off of the monthly reconciliations, as well as the finance area's review of statements when processing transactions, to identify and investigate potential breaches.

1.4 Did cardholders acknowledge their responsibilities in using the TGC?

We expected every TGC holder would have signed an acknowledgement in the form of, or similar to, Attachment 3 of TI 705.

Findings

All of the selected persons had a form on file where they had acknowledged their cardholder responsibilities.

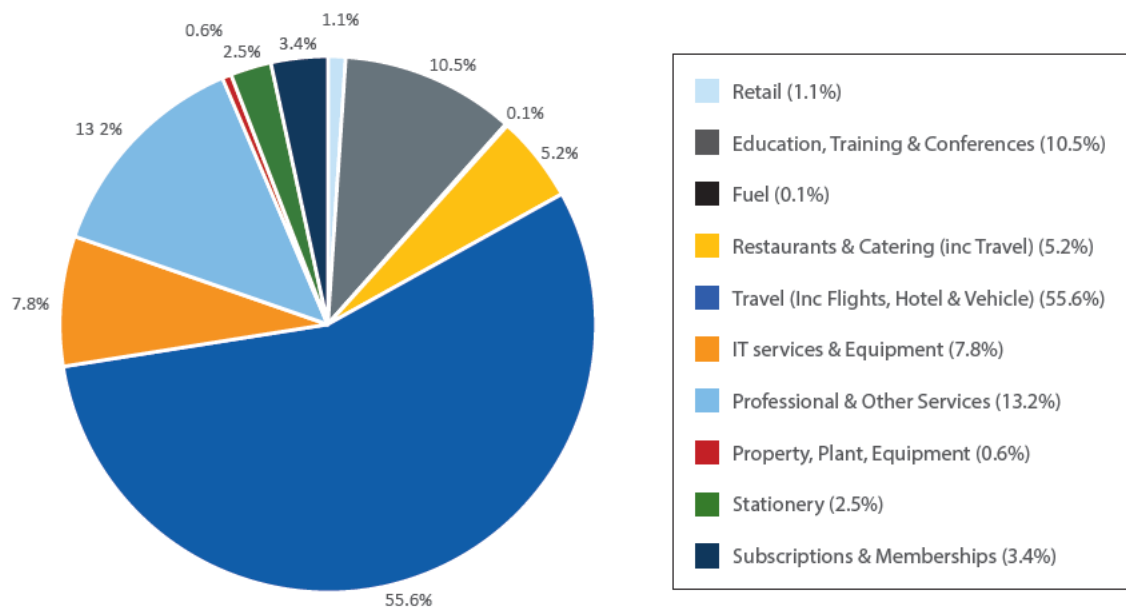
2. WERE TGC PURCHASES IN COMPLIANCE WITH THE REQUIREMENTS OF TI 705 AND AGENCY POLICIES AND PROCEDURES?

To test this criteria, we obtained from Westpac through the Department of Treasury and Finance, the population of TGC transactions for the 2017 calendar year. The total spend was \$38.4m and there were 197 405 transactions, with an average spend per transaction of \$194. The level of transactions and average transaction spend are consistent with the requirement in TI 705 that TGCs are used for payments under \$1 000.

Transactions were extracted for the selected persons which resulted in a population of 3 957 transactions totalling \$799 636 across 98 cardholders for the 2017 calendar year.

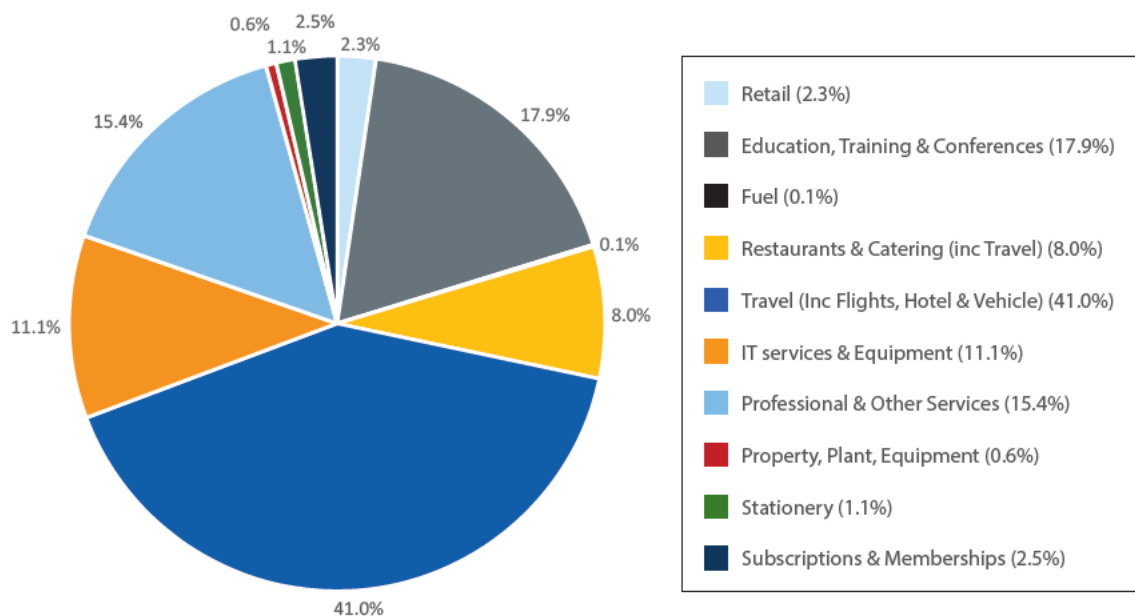
The breakdown of the population of transactions by the selected persons by category of spend is shown in Figure 2.

Figure 2: Categories of spend across all transactions of selected persons



Source: Tasmanian Audit Office

Figure 3: Categories of spend across tested transactions of selected persons



Source: Tasmanian Audit Office

From this population, we examined 522 transactions, totalling \$251 252, which represented 31.4% of the value and 13.2% of the total number of transactions for the selected persons. These TGC purchases are referred to as 'the tested transactions'. The tested transactions were chosen based on an initial assessment of whether, *prima facie*, they could potentially include purchases in contravention of TI 705, such as entertainment, personal items, fuel, payment of fines or cash withdrawals. This assessment was based on data provided by Westpac which had grouped merchants into spend categories. The category of spend breakdown for the tested transactions is shown at Figure 3.

Supporting documentation was obtained for all tested transactions and reviewed. We then visited each Agency to gather additional information and explanations to complete our analysis.

2.1 Were transactions supported by appropriate documentation?

We expected that all transactions would be supported by a tax invoice and, per TI 705, any missing tax invoices for transactions greater than \$75 would be supported by a statutory declaration detailing the transaction. We also expected the cardholder to reconcile their purchases on a monthly basis and obtain authorisation by an appropriate officer.

Findings

All tested transactions were signed for by the cardholder on a monthly basis. Transaction lists for each month were authorised by an appropriate officer. We found no instances where monthly credit card reconciliations were not signed and authorised. However, we found one Agency where some reconciliations took place up to six months after the transaction occurred. We have provided that feedback to the Agency concerned but have not made a broadly applicable recommendation.

There were specific instances of missing documentation and these are covered in section 2.2.

2.2 Were selected transactions in compliance with the requirements of the Treasurer's Instruction and the Agency's policies and procedures?

We expected to find that, where breaches of TI 705 and/or policy occurred, these would be detected by the internal controls within the Agency. We further expected breaches, not previously detected by Agency internal controls, to be less than 1.0% of the transactions examined.

Findings

For all transactions tested, monthly credit and transaction limits were adhered to in accordance with TI 705.3 and TI 705.4.

For the selected persons who had travel-related purchases in the tested transactions, we performed an additional test to determine whether a claim was also made for travel allowance. In all cases, no such claims were recorded.

No instances were found of cash withdrawals (TI 705.5(a)) or personal transactions (TI 705.5(f)).

We found three instances within the tested transactions where an online payment service (PayPal) was used for TGC transactions conducted online. TI 705 is currently silent on the linking of TGCs with online payment service providers. We are advised by the Department of Treasury and Finance that it is currently developing guidance on the use of online payment service providers.

Overall, we found evidence that breaches of TI 705 or policies had generally been detected by internal controls, resulting in, for example, statutory declarations for items such as missing receipts.

Table 1 shows the breaches we found that were not detected by the Agencies' TGC internal controls process. The breaches are considered relatively minor in number being 19 of 522 tested transactions (3.6%) or \$11 601 of the \$251 252 (4.6%) value of transactions tested.

Table 1: Breaches not detected by Agencies

Type of breach	Number of instances detected	% of total tested transactions	Total value \$	% of total tested transactions
Cardholder paid for entertainment without any authorisation (TI 705.5(b) expenditure on entertainment, where not an authorised officer, prohibited)	1	0.2%	282	0.1%
Card used to purchase fuel (TI 705.5(c) purchase of fuel prohibited)	4	0.8%	246	0.1%
Card used to pay fine (TI 705.5(e) use of card to pay fines prohibited)	1	0.2%	435	0.2%
Entertainment paid for by delegate (TI 705.7 cardholders authorised for entertainment cannot delegate that power)	1	0.2%	605	0.2%
Cardholder authorised for entertainment but Declaration unsigned by Secretary or Deputy Secretary (TI 705.8 each entertainment purchase must be authorised by the Agency Secretary or Deputy Secretary)	2	0.4%	656	0.3%
No tax invoice. Supporting document was either an order summary, reservation summary or credit card receipt only and the transaction was over \$75 (TI 705.11 lack of appropriate documentation)	6	1.2%	6 411	2.6%
No receipt at all and no statutory declaration or other explanation (TI 705.11 lack of appropriate documentation)	4	0.8%	2 966	1.2%
Total number of undetected breaches	19	3.6%	11 601	4.6%

As identified above, there were 10 transactions (1.9% of tested transactions), with a value of \$9 377 (3.7%), that lacked appropriate supporting documentation. Given the level of missing documentation, Agencies may wish to consider measures, for example, expense tracking applications for smartphones, to improve the collection and retention of documentation to support TGC purchases.

Recommendation

1. Agencies consider measures, for example, expense tracking applications for smartphones, to improve the collection and retention of documentation to support TGC purchases.

In addition to the breaches identified in Table 1, we also noted 32 occurrences (for example, email confirmation for an online order) where a staff member had used another person's TGC to make purchases. In every case, these transactions had been authorised through the monthly reconciliation process and all relevant evidence was attached. The value of these transactions totalled \$44 309 (17.6% of the tested transactions).

We have not included these breaches in Table 1 but have categorised them separately. We understand it is practice in some Agencies for support staff to use their manager's card from time to time for pragmatic reasons, particularly for online transactions. However, all selected persons had signed an acknowledgement (following Attachment 3 of TI 705), that stated *'The TGC is the property of the Department of Treasury and Finance and is in my possession and under my strict control and I will not permit the TGC to be used by another person.'*¹ Given the high level of non-compliance, we recommend Agencies ensure there is a prohibition of card use by persons other than the cardholder, as intended by TI 705. Where necessary, Agencies should consider issuing cards to support staff required to carry out such transactions.

Recommendation

2. Agencies ensure there is a prohibition of card use by persons other than the cardholder, as intended by TI 705.

¹ As required by Attachment 3 of TI 705. Underline added.

APPENDIX 1: SUBMISSIONS AND COMMENTS RECEIVED

Submissions and comments that we receive are not subject to the examination nor the evidentiary standards required in reaching our conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response.

Section 30(3) of the *Audit Act 2008* requires that this report include any submissions or comments made under Section 30(2) or a fair summary of them. The received combined departmental Agency submission is included in full below.

COMBINED DEPARTMENTAL AGENCY SUBMISSION

Thank you for your letter dated 21 September 2018 providing your draft report from your examination of the use of Tasmanian Government Cards by central Agency executives and executive assistants. As discussed at the Heads of Agency meeting on 26 September 2018, the following response is made on behalf of all Agencies:

Recommendation one

We note the Auditor-General's comments. Measures to improve the collection and retention of documentation to support Tasmanian Government Card transactions will be considered as part of the upcoming tender process for Government Banking Services.

Recommendation two

We note the Auditor-General's comments. *Treasurer's Instruction 705: Tasmanian Government Card* currently includes an acknowledgement template by the cardholder, which explicitly requires that the cardholder will not permit their TGC to be used by another person. As recommended by the Auditor-General, the TI will be amended to include this requirement as a mandatory revision in the body of the Instruction.

Tony Ferrall

Secretary

Department of Treasury and Finance

AUDIT MANDATE AND STANDARDS APPLIED

Mandate

Section 17(1) of the *Audit Act 2008* states that:

‘An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.’

Under the provisions of section 18, the Auditor-General:

- ‘(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).’

Under the provisions of section 19, the Auditor-General:

- ‘(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards
- (2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity’s appropriate Minister and provide a copy to the relevant accountable authority.’

Standards Applied

Section 31 specifies that:

‘The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
- (b) the Australian Auditing and Assurance Standards.’

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.



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