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## INTRODUCTION

Under the provisions of Section 44(b) of the Financial Management and Audit Act 1990 (FMAA), the Auditor-General may “carry out examinations of the economy, efficiency and effectiveness of Government departments or public bodies”.

The conduct of such audits is often referred to as “performance auditing” and is a component of the comprehensive auditing role performed by all public sector audit offices in Australia.

This report relates to the performance audit conducted by the Tasmanian Audit Office during the period January to June 1996 of “Departmental Accounting Manuals and Compliance with Procedures”.

The legislative requirement for Government departments, hereafter referred to as “agencies”, to have accounting manuals was introduced in 1990 through the FMAA with a period of two and a half years being allowed for their preparation and issue. Treasurer’s Instructions issued under the FMAA prescribe the form and content of accounting manuals.

Auditors employed by the Tasmanian Audit Office refer to agencies’ accounting manuals in the course of audits of agencies’ financial systems and reports. However, that degree of access does not normally provide an adequate opportunity to assess the quality and appropriateness of manual contents. It was considered that a realistic assessment of accounting manuals would only be achieved through a structured approach involving all agencies’ manuals and using standard review criteria. This performance audit was based on that approach and was extended to include audit testing of actual compliance by agencies with certain procedures documented in their manuals and with selected Treasurer’s Instructions (TI’s) not specifically related to accounting manuals.

Through this approach, the audit has evaluated for the first time since the issue of the Treasurer’s Instructions in November 1990, the level of agencies’ commitment to complying with the Instructions.

The findings and recommendations of the audit are important in the sense that they have become available at a time of considerable financial reform of Government Inner-Budget activity whereby there will be a need to consider the relevance or appropriateness of the majority, if not all, of the Treasurer’s Instructions. Despite periodic amendments, the form and structure of the Instructions have not changed significantly since their issue some six years ago.

The findings arising from this performance audit together with further background and information as to audit objectives, criteria, scope and timing, are documented in some detail in the remainder of this report.



## SUMMARY OF FINDINGS AND RECOMMENDATIONS

### Accounting Manuals

No agency has managed to achieve the preparation and updating of its accounting manual in accordance with the procedures prescribed by the Treasurer's Instructions.

*Pages 17 and 18*

Agencies' accounting manuals were to have been completed by 31 March 1993. Only nine out of 15 agencies managed to complete and issue their manuals by the end of 1993. Two agencies issued theirs in 1994; one in 1996; and another two have yet to complete their manuals.

*Page 17*

One agency which completed its manual in 1993 by modelling it on another agency's manual has not yet issued it as it is not considered to be useful in its present form due to subsequent restructures of the Agency and impending system changes.

*Page 17*

Very few of the agencies which have accounting manuals had made any serious attempt to ensure they were kept up-to-date. Some agencies, having made a one-time effort to complete the manual, have not amended it since that time to reflect changes in their structure, systems or policies.

*Page 18*

On the basis of a self-assessment by agencies of the extent to which their accounting manuals comply with the form and contents prescribed by the Treasurer's Instructions, the Office concluded that the overall level of compliance is quite poor. This is particularly so considering that five years have been available to achieve compliance.

*Pages 19, 20, 21 and 27*

It was noted that 10 (or 25%) of the 40 accounting manual components prescribed by Treasurer's Instruction 301, were not directly reflected in the index headings contained in the document "Guidelines for the Preparation of an Accounting Manual" issued to agencies by the Department of Treasury and Finance.

*Page 21*

The majority of agencies failed to record in their accounting manuals the variations and revocations of certifying officer appointments.

*Page 34*

A survey of 28 employees in 11 agencies revealed that 13 “never” referred to their agency’s accounting manual; 13 referred to it “infrequently”; and two “frequently”. All but one of the 28 employees said they preferred to obtain information by direct verbal communication with a colleague or supervisor rather than consulting the accounting manual.

*Pages 27 and 28*

The prescriptive framework for accounting manuals provided in Treasurer’s Instructions 301 and 302 has remained unamended since the issue of those TI’s in November 1990. The Office recommends an alternative approach to structuring accounting manuals. This could involve the removal of virtually all prescriptive components of these Instructions and replacement with a statement of objectives to be met in documenting manuals. Where necessary, manuals should contain cross-references to more detailed documentation of major financial systems.

*Pages 41 and 42*

## **Audit and Quality Assurance**

The accounting manuals of only four agencies’ provide for the on-going evaluation of the operation of internal controls.

*Pages 24 and 25*

The majority of agencies claim to have an internal audit or other quality assurance process, however, only four claimed that it was comprehensive.

*Pages 24 and 25*

Only three agencies have a formally structured and operative audit committee (or equivalent).

*Page 24*

Only four out of 14 agencies which responded to an audit survey indicated that they had undertaken a structured assessment of their organisational risk. Two other agencies had undertaken a partial assessment.

*Pages 22 and 23*

All agencies could benefit from having an audit committee to formalise their processes associated with quality assurance and to ensure that issues relating to internal controls receive appropriate priority.

*Pages 24, 43 and 44*

## Treasurer's Instructions

The Treasurer's Instructions and copies of related legislation are issued to agencies by the Department of Treasury and Finance in a hand-book. Audit sampling of some of the 230 books on issue showed that up-dates to the contents issued by the Department were adequately filed in agencies' hand-books.

*Pages 31 and 32*

Technical non-compliance with Treasurer's Instructions is fairly common and although approval for an exemption or variation is possible under TI 105, actual approvals have been given in respect of only seven specific Instructions to a total of 11 agencies. No agency has applied for, or been given, approval for exemptions in relation to the form or contents of its accounting manual.

*Pages 32 and 33*

Since the Treasurer's Instructions were issued in November 1990 only one agency has undertaken a systematic review to establish whether it was failing to comply with any Instruction, in order to either arrange compliance or formally seek exemption.

*Page 33*

Audit testing revealed that several persons, including two Heads of small agencies, had been acting as certifying officers in five agencies without being appointed in writing as required by TI 504.

*Pages 33 and 34*

There is no practical means of verifying whether certifying officers conscientiously perform their control function. However, it is a concern that the majority of agencies do not specifically provide their certifying officers at the time of appointment with a copy of TI 505 "Duties of Certifying Officers" as a means of communicating the responsibilities of the position.

*Pages 32 and 34*

The majority of agencies complied with the preparation and handling of cheques requirements of TIs 511 and 512.

*Pages 32 and 35*

Sample testing of payments made in recent months by agencies did not disclose any cases of non-compliance with TI 521 which prohibits prepayment for goods or services except in cases where that is normal commercial practice.

*Pages 32 and 35*

The Heads of only two agencies authorised officers in accordance with TI 604 to collect or receive money on their behalf.

*Pages 32 and 36*

Preliminary Audit findings showed that there was a lack of consistency in the way various agencies arranged their financial delegations. There is a concern that many instruments of delegation may be technically flawed. The matter has been referred to the Secretary of the Department of Treasury and Finance and the Solicitor-General for consideration and provision of practical guidance to agencies.

*Pages 36, 37 and 38*

Only four agencies were maintaining proper registers of accountable forms in accordance with TI 1002.

*Pages 32 and 33*

There appears to be a perception within agencies that the Treasurer's Instructions provide guidance only rather than having the force of law. In most respects the monitoring of compliance rests with the agencies themselves.

*Page 39*

The extent of the current financial management reform agenda calls for a re-assessment of the existing Treasurer's Instructions with a view to finding the right balance between the level of *prescription* on the one hand and *devolution* on the other.

*Pages 40 and 41*



## BACKGROUND

Until the 1989-90 financial year no requirements for agencies to have accounting manuals were included in the standard instructions issued to agencies by the then Treasury Department.

At that time there were some 54 agencies, the great majority of which collected only immaterial levels of receipts. Therefore the mainstream financial transactions of agencies comprised payments related to salaries and wages of employees and purchases of goods and services.

These payments were made through centralised systems which although then substantially converted to processing by computer, followed long established procedures which traditionally were heavily oversighted by Treasury and Audit, notwithstanding that the level of that oversight was progressively reducing. Permanency and career progression of finance staff within agencies were the norm. Consequently the personal knowledge attained by staff of the financial procedures in which they were involved, in most cases, would have ensured an acceptable level of compliance without the need for recourse to documentation of systems in accounting manuals.

In July 1989 there was a major restructuring of agencies with a reduction in overall numbers from 54 to just 19. The complexities in financial systems resulting from that restructure and the consequential reassignment of duties to employees unfamiliar with abolished agencies' procedures, were perhaps the first major indicators of a need to document systems and procedures.

That restructure of agencies was followed in September 1989 by the establishment of the Financial Management Improvement Program which had, as one of its objectives, the effective monitoring of the financial performance of agencies. This was supported by the subsequent enactment of the Financial Management and Audit Act 1990 (FMAA) which required agencies, for the first time, to include financial statements of their receipts and expenditure in a standard format, as part of their annual reports to Parliament.

The FMAA imposed various other specific financial responsibilities on Heads of Agency including compliance with Treasurer's Instructions which were first issued in November 1990 and have been updated annually since that time. It also introduced, through Section 10, a requirement for each Head of Agency to prepare and issue an accounting manual with which finance officers in the Agency were required to comply.

Section 10 states that -

- (1) A Head of Agency shall prepare and issue, within such time as the Treasurer may allow, an accounting manual in accordance with the Treasurer's Instructions.*
- (2) A Head of Agency shall ensure that the accounting manual is maintained in an effective and up to date form and is readily available to officers in the Agency.*
- (3) An officer engaged in duties in connection with the financial management of an Agency shall, subject to this Act, comply with the processes and procedures specified in the accounting manual issued in respect of that Agency.*

The time allowed by the Treasurer for the preparation and issue of agencies' accounting manuals to be completed was "..... by 31 March 1993".

Agencies were advised of that dead-line on 2 January 1992. This in effect allowed agencies a further 15 months to comply although they had already been aware for over a year, through the existence of Section 10 of the FMAA, of the impending need to have an accounting manual.

In reality agencies had a time-frame of around two and a half years for preparation and issue of their accounting manuals. During that time they had access to the contents of Treasurer's Instructions 301, 302 and 303 which prescribe the matters relating to accounting manuals. Contents of these Instructions are included as Appendices 1, 2 and 3 to this report.

To assist agencies with the task, the Department of Treasury and Finance in 1992 supplied them with a document titled Guidelines for the Preparation of an Accounting Manual. These Guidelines described:

- what an accounting manual is
- purpose of an accounting manual
- the requirements of the FMAA and the Treasurer's Instructions
- who should use the accounting manual
- how the accounting manual is prepared
- the role of internal audit in preparation of the accounting manual
- a suggested index and structure of contents.

In August 1992 the need for further guidance on production of agencies' accounting manuals was identified at a meeting of auditors and finance officers from various agencies. This resulted in the formation, on a purely co-operative basis of the Accounting Manuals Consortium comprised of representatives from Treasury, the Audit Office and seven line agencies.

The Consortium met on only one occasion. It examined the style and structure of accounting manuals of selected government and semi-government organisations with a view to adoption by all agencies of a “model” accounting manual structure. It considered this approach would have the dual advantages of identifying best practice and minimising the resources required to develop each separate agency’s accounting manual.

A diversity of views was expressed by the Consortium members with agreement being reached only on the following matters:

- There is a need for both “policy” and “detailed procedures” documents
- The index to each agency’s manual should be based on the structure contained in the Guidelines developed by the Department of Treasury and Finance
- Manuals should be developed to suit individual agency requirements.

Consortium members also agreed to circulate copies of draft manuals or sections of manuals to assist each other with future development of their manual contents. No other formally structured co-operation between agencies took place. However, there were indications during this audit that fairly extensive informal “networking” took place between individuals involved in compiling manuals in agencies.

No formalised review of progress by agencies in the development of their manuals has taken place during the intervening three year since the formation of the Consortium and the commencement of this audit.

At the early stages of planning for this audit it became clear that field-testing required in relation to accounting manuals would provide an ideal opportunity to undertake additional testing relating to compliance with certain procedures documented in manuals and selected Treasurer’s Instructions.



## AUDIT OBJECTIVES, CRITERIA, SCOPE AND TIMING

### Audit Objectives

The principal objectives of this audit were to determine in respect of the agencies which are named in Schedule 1 or Schedule 2 of the FMAA, the following related issues:

- extent of compliance with the requirement to have an accounting manual
- whether the form and content of manuals meet the prescribed requirements
- degree of compliance with selected requirements in the Treasurer's Instructions and the accounting manuals.

Associated objectives included consideration and assessment of risk management and quality assurance issues, within the context of accounting manuals and the Treasurer's Instructions.

The extent of utilisation of accounting manuals as a resource for financial management and control, was also considered as an objective of the audit.

### Criteria by which Objectives were Tested

Specifically the audit criteria were that:

- Each agency should -
  - have an accounting manual ....
  - .... containing the matters required by the Treasurer's Instructions ....
  - .... kept in an up-to-date condition ....
  - .... available in sufficient quantities ....
  - .... to appropriate employees in the agency ....
  - .... who would find the manual useful in the exercise of their functions.
- Each agency's accounting manual should include reference to controls based on effective risk management determined through a structured assessment of its organisational risks and the potential financial impact of those risks.

- Each agency should have procedures to ensure compliance generally with the procedures included in its accounting manual and the Treasurer's Instructions, and particularly the following Instructions -

TI 103	Access to Treasurer's Instructions
TI 105	Compliance/Exemptions from Treasurer's Instructions
TI 504	Appointment of Certifying Officers (Sec 22 of FMAA)
TI 505	Duties of Certifying Officers (Sec 15 of FMAA)
TI 511	Payment by Cheque
TI 512	Preparation and Handling of Cheques
TI 521	Prepaid Expenditure
TI 604	Authorisation of Officers to Receive Moneys, etc.
TI 902	Purchasing (compliance with delegations, imposed limits, etc.)
TI 1002	Accountable Forms

These criteria were developed by reference to:

- The FMAA
- Treasurer's Instructions issued under the FMAA
- Guidelines for the Preparation of an Accounting Manual issued by the Department of Treasury and Finance
- Accounting Manuals Consortium records
- The methodology and findings of any similar audits undertaken recently within other Australian public sector jurisdictions.

## **Scope**

The scope of the audit is stated as being relative to "departmental accounting manuals and compliance with procedures".

In this context:

"Departmental accounting manuals" refers to the accounting manuals of those agencies which are subject to the provisions of the FMAA by virtue of being included in Schedule 1 or Schedule 2 of that Act.

Of the 18 agencies included in those Schedules as at January 1996, three (3) were excluded from coverage by this audit due to their special nature and relatively low value of financial transactions; they are -

His Excellency the Governor's Establishment  
Public Sector Management Office  
Joint House Committee of the Parliament.

The remaining agencies which were covered by this audit are -

Community and Health Services  
Education, Community and Cultural Development \*  
Environment and Land Management  
House of Assembly  
Vocational Education and Training \*  
Justice  
Legislative Council  
Police and Public Safety \*  
Premier and Cabinet  
Primary Industry and Fisheries  
Tasmania - Development and Resources #  
Tasmanian Audit Office  
Tourism \*  
Transport  
Treasury and Finance

\* These Agencies have undergone name changes in the course of alterations to Administrative Arrangements in March 1996 which included some restructuring of these and other agencies' functions.

# This Agency was divested of certain responsibilities in the course of alterations to Administrative Arrangements in March 1996. Most of those responsibilities were transferred to the newly formed Workplace Safety Authority which was not in existence at the commencement of this audit and is therefore not identified separately in the audit findings.

"Compliance with procedures" refers to agencies' recognition of and adherence to the substance of procedures documented in their accounting manuals and compliance with the Treasurer's Instructions.

Testing of compliance with procedures in accounting manuals was limited to compliance with financial delegations. Testing of compliance with Treasurer's Instructions involved the ten (10) Instructions listed above in the "criteria" segment of this chapter and Instructions 301, 302 and 303 which are directly related to the form, content and control of accounting manuals.

## Timing

This topic was selected for audit in October 1995 in consultation with the Department of Treasury and Finance.

Planning commenced in January 1996. Information gathering from agencies began in February 1996 and ended with the field-testing of transactions and procedures by officers of this Office during May and June 1996.

This timing was selected in anticipation that any findings and recommendations arising from the audit would provide the maximum benefit to stockholders at that stage. In particular it was considered that the information would become available

to the Department of Treasury and Finance at a critical time to enable better informed decisions to be made as to the future form and content of Treasurer's Instructions.

In fact substantial changes were made to the Treasurer's Instructions in June 1996 while this audit was being finalised. They mainly involved modification as a consequence of the impending decommissioning by the Department of Treasury and Finance of its Computerised Financial System. Further changes to the Instructions will be necessary in the near future to reflect other financial reforms such as the mandatory adoption by agencies of accrual accounting and outputs costing methodologies, all of which became effective as from July 1996.

These and other reforms will have far reaching effects on the documentation of policies and procedures in agencies' accounting manuals. A major review of the accounting manual "form and content" provisions of Treasurer's Instructions 301 and 302 are now inevitable.

## **Cost**

The cost of this audit up to the time of printing this report, was estimated to be \$46 044.

Full costs of performance audits undertaken by the Tasmanian Audit Office, including the costs of printing reports, are published in the Office's Annual Report to Parliament following their completion.

A complete list of reports to Parliament on previous performance audits by the Office is included at the end of this report.



## APPROACH TO INFORMATION GATHERING

It was decided early in the planning stage of the audit that the most appropriate approach to information gathering would be through the combined use of a variety of techniques. Those techniques were successfully applied and are summarised as follows:

- Agencies supplied the Office with a copy of their accounting manual.
- Agencies provided the Office with a self-assessment of their compliance with Treasurer's Instructions 301, 302 and 303 in the preparation and control of their Accounting Manual. The self-assessment was required to be in the standard format shown in Appendix 4.
- The Office reviewed agencies' self-assessments by reference to the copies of accounting manuals received from agencies.
- Initial meetings were held between representatives of this Office and each agency's contact officers to -
  - resolve any perceived discrepancies between agency and the Office ratings allotted to individual components of the self-assessment form, and
  - obtain additional information on compliance with selected Treasurer's Instructions.
- Subsequent visits to each agency were made to obtain evidence (on a sample basis) of compliance with financial delegation procedures described in the accounting manual and designated Treasurer's Instructions.



## STAGES REACHED IN DEVELOPMENT OF ACCOUNTING MANUALS

All agencies are required under the provisions of the FMAA to prepare and issue accounting manuals, to maintain them in an up-to-date condition, and to make them readily available to employees.

### Preparation and Issue of Accounting Manuals

It was not possible to retrospectively determine exactly how many of the 15 agencies subject to this audit actually complied with the requirement to prepare and issue their accounting manuals by 31 March 1993. This was due to the fact that some agencies, despite the specific provisions of Treasurer's Instruction 301(2)(j) requiring disclosure of the "date of application of the accounting manual", did not disclose that basic information in their manuals.

From the overall context of the manuals reviewed it was estimated that only nine of the 15 agencies managed to complete and issue their manuals before the end of 1993.

The status of development by the remaining 6 agencies was found to be as follows:

- One agency, Transport, which had been compiling a draft manual, abandoned its development in 1995 following a decision to implement a new computerised financial management information system together with a change from a cash to an accrual basis of accounting. Plans are now in place to produce a manual. However, for the purposes of the audit it was considered that this Agency did not have an accounting manual.
- Another agency, Vocational Education and Training, completed its draft manual in 1993 by producing a condensed and customised version modelled on another agency's manual. The resulting draft has not been issued because it is not considered to be useful in its present form as the agency has been restructured several times and an accrual accounting manual will be produced following the implementation of a new financial management system. Notwithstanding its non-issue, the manual was included for assessment in the course of this audit.
- Two agencies, Justice and Police and Public Safety, completed and issued their manuals during 1994.
- A large agency, Education, Community and Cultural Development, has not yet completed the preparation of its manual. The segments which have been prepared cover procedures in relation major financial systems and provide practical guidance for use as a "working document". This unissued and only partially completed manual was included for assessment in the course of this audit.

- The Tasmanian Audit Office, one of the smaller agencies reviewed, had not finalised its Accounting Manual until May 1996 due to the on-going development of its financial systems.

## **Updating of Information Contained in Accounting Manuals**

Very few of the agencies which have an accounting manual had made any serious attempt to ensure that their manuals were maintained in an up-to-date condition. The areas most commonly being up-dated related to changes in delegations of functions to employees.

Some agencies having made a one-time effort to compile and issue a manual by the mandatory date of 31 March 1993, have not made any amendments to reflect changed conditions in their structure, systems or policies.

## **Availability of Accounting Manuals to Agency Employees**

There appeared to be somewhat different attitudes to making copies of manuals available to employees within agencies.

Within the 10 agencies which had issued manuals in “hard” copy, the number of copies on issue ranged from four to 41. This is an average of some 16 copies per agency. However only four of those 10 agencies have individually numbered all the copies of their manuals and established a record of the persons to whom they were issued in accordance with Treasurer’s Instruction 303.

Only one agency, Tourism, has made its manual available to employees in computerised or “soft” form. Limited quantities of the manual were originally distributed in hard copy before it became available approximately two years ago to all employees who had access to the computer network.

## **ASSESSMENT OF FORM AND CONTENTS OF ACCOUNTING MANUALS**

To assist agencies with preparation of their accounting manuals the Department of Treasury and Finance issued, in 1992, a document titled “Guidelines for the Preparation of an Accounting Manual”. These Guidelines were not prescriptive. Rather they were designed to stimulate active consideration of the issues involved. They recognised that manuals would differ between agencies and that they should be tailored to suit the needs of particular agencies and be practical and useable documents.

On the other hand Treasurer’s Instruction 301 actually prescribes the form and contents of accounting manuals required to be maintained by agencies. Instructions 302 and 303 also affect accounting manuals. These Instructions are reproduced as Appendices 1, 2 and 3 respectively.

At an early stage of this audit agencies were requested to carry out a self-assessment of their compliance with every component of Instruction 301 and certain aspects of Instructions 302 and 303. See Appendix 4 for details of the self-assessment format.

Following a review by the Office of agencies’ self-assessments, the results were summarised in separate matrices which match certain components of the Instructions with each agency to provide an overall view of the extent of compliance by agencies. The results are summarised in Figures 1, 2 and 3.

### **Compliance with Form and Contents Prescribed by Treasurer’s Instruction 301**

The results of the self-assessments by agencies in relation to the components of form and contents prescribed by Instruction 301 are summarised in Figure 1 which classifies compliance as being “comprehensive”, “substantial”, “limited”, “not in manual” or “not applicable”.

The results when viewed in this aggregated format led the Office to the conclusion that the overall level of compliance is quite poor. This is particularly so considering that approximately five years have been available to achieve compliance.

While perceptions may differ somewhat as to degrees of compliance in a particular case i.e. whether “substantial” or “limited”, there is no such question when a particular component is “not in manual” when it clearly does apply to an agency.

The extent of components revealed by Figure 1 as not being in manuals was of particular concern as it was largely responsible for the Office’s overall assessment of poor compliance.

**FIGURE 1**

In search for a possible explanation for the relatively high level of these exceptions, the Office performed a matching of Instruction 301 components with the index structure contained in the Guidelines for the Preparation of an Accounting Manual. It was found that 10 (or 25%) of the 40 accounting manual components prescribed by Instruction 301, were not directly reflected in the index headings suggested in the Guidelines.

The Office also noted a strong correlation between the 10 components absent from the suggested index and those components frequently rated in Figure 1 as not being in manuals.

The 10 components not reflected in the index headings relate to subject matter contained in sub-paragraphs of Instruction 301 as follows:

- (2)(f) chart of accounts
- (2)(j) date of application of the accounting manual
- (3)(d) accounting for any manufacturing, trading or commercial activity
- (3)(h) computerised financial information backup
- (3)(i) passwording and privacy of computerised financial systems
- (3)(s) controls over issue and use of keys
- (3)(t) security of all property controlled
- (3)(v) control over returnable containers
- (3)(w) controls over use of stamps and franking machines
- (3)(x) procedures relating to handover of money receiving duties

There are two likely scenarios to explain this finding. One is that the components considered unworthy of an index heading in the Guidelines may also have been considered by some agencies to be undeserving of mention in their manual or were inapplicable to their activities. The other is that the majority of agencies may have relied on the Guidelines for support in developing their accounting manual structure and contents possibly without reference to the Treasurer's Instructions which actually prescribe the contents of accounting manuals.

Regardless of any perceived limitations which the index structure in the Guidelines may have, it does provide a logical framework which approximately nine of the 14 reviewed agencies' manuals followed with relatively minor modifications.

The implications of these findings are considered later in this report.

## **Recognition of Risk Management in the Context of Accounting Manuals**

Treasurer's Instruction 302(1) provides that -

*"When specifying procedures, processes and practices in agency accounting manuals, Heads of Agency are to exercise effective risk management which involves reducing the potential for loss through the implementation of adequate preventative measures, while providing scope for improved resource management strategies".*

As part of the self-assessment approach to this audit it was considered relevant to provide each agency with the opportunity of communicating, in the context of accounting manuals, whether the agency has:

- undertaken a structured assessment of its organisational risks and the potential impact of those risks,
- formulated a policy in relation to the management of its risks, and
- (if so) whether that policy is documented in the accounting manual or in some other document.

The responses which are summarised in Figure 2 indicate that only four of the 14 agencies which responded have undertaken a structured assessment of their organisational risks. Those same agencies have formulated a risk management policy which, in all but one case, has been documented and included in their manual.

Two other agencies have indicated that a structured approach to risk assessment has been used on only one segment of their organisation.

The implications of these findings are considered later in this report.



**FIGURE 2**

## Role of Accounting Manuals in Maintaining Internal Control

Treasurer's Instruction 302(2) provides that -

*“In developing Accounting Manuals, Heads of Agency are to establish policies in relation to internal control which address the objective of:*

- (a) reliability and integrity of information*
- (b) compliance with policies, plans, procedures, laws and regulations*
- (c) safeguarding of assets*
- (d) effectiveness and efficiency of operation*
- (e) accomplishment of organisational goals and objectives*
- (f) preventing error and fraud in the financial transactions*
- (g) ensuring that all revenue due to the Agency is collected promptly*
- (h) ensuring that expenditure by the Agency is authorised and bona fide”.*

As part of the self-assessment approach to this audit it was considered relevant to provide each agency with the opportunity of communicating, in the context of accounting manuals:

- the extent of the agency's compliance with this Instruction,
- whether the agency's accounting manual provides for the ongoing evaluation of the operation of internal controls, and
- whether the agency has an internal audit or other quality assurance process and (if so) its extent.

The responses which are summarised in Figure 3 indicate that all 14 responding agencies' manuals comply to some extent with this Instruction. However, only four of these agencies' manuals provide for the on-going evaluation of the operation of internal controls.

These agencies, with the exception of only three, claim to have an internal audit or other quality assurance process, with four of the agencies claiming that its extent is comprehensive. It is understood that only three agencies have a formally structured and operative audit committee (or equivalent).

Further reference is made to audit committees later in this report.

**FIGURE 3**



## THE ACCOUNTING MANUAL AS AN AGENCY RESOURCE

The Preface to the document Guidelines for the Preparation of an Accounting Manual (issued to agencies in 1992) concludes with the following paragraph -

*“The accounting manual should be tailored to suit the organisation so that it becomes a practical and useable document. It should therefore be designed to satisfy firstly the statutory requirements and secondly the requirements of the Head of Agency and not those of the Auditor-General, Treasury or other third parties.”*

If the first priority of accounting manual design is accepted as being compliance with “the statutory requirements”, then it could be said that, overall, agencies have not satisfied that priority. As mentioned in the previous Chapter, the results of this audit led to the conclusion that the overall level of compliance with the form and content requirements of the Treasurer’s Instructions is quite poor.

If the secondary purpose of accounting manuals is to serve “the requirements of the Head of Agency” and presumably the employees within the Agency, then the results of a survey conducted as an adjunct to this audit are relevant.

### Survey of Employees

A survey was conducted to establish whether the employees in the financial operations areas of agencies found their accounting manual useful in the exercise of their functions. Employees comprising a sample of 28 from the 11 agencies, which had actually issued their manuals, were individually interviewed to determine:

1. whether they knew where they could get access to a copy of the accounting manual,
2. how frequently they referred to the manual i.e. frequently, infrequently or never,
3. whether the manual usually meets their needs when they refer to it, and
4. what was their preferred means of obtaining information about accounting procedures or accounting policy e.g. by referring to the manual, to some other documented source or asking a colleague.

The following is a summary of responses -

#### *Question 1.*

Two employees out of the 28 interviewed did not know that their agency’s accounting manual existed.

*Question 2.*

Out of the 28 employees interviewed two said they referred to the manual frequently; 13 infrequently; and 13 never.

*Question 3.*

Out of the 15 employees who referred to their agency's manual, all but one indicated that it met their needs.

*Question 4.*

Out of the 28 employees interviewed only one indicated a preference to consulting the accounting manual. The other 27 employees' preference was to obtain relevant information by direct verbal communication with a colleague or supervisor who is most likely to know. Three of these employees also said they were likely to research legislation or other documentation for their information needs.

## **Implications of Audit Findings for Future Policy on Accounting Manuals**

The audit findings described above need to be considered in the context of central policy issued on accounting manuals by the Department of Treasury and Finance.

This is particularly relevant having regard to the fact that the Department of Treasury and Finance's Computerised Financial System which was previously available to agencies as on-line users, was decommissioned in July 1996. Agencies have now implemented their own computerised financial management information systems designed to meet their individual detailed financial information needs as well as the higher level needs of the Department of Treasury and Finance which are interfaced through to the Treasury Financial Reporting System.

The centralised payroll system PAYSTAT was similarly decommissioned in late 1995 with all agencies now having full responsibility for their own payroll processing.

As a consequence of these and other changes the Treasurer's Instructions were recently amended with approximately one-quarter of them being deleted and several being altered to reflect the new arrangements.

Instructions 301 and 302 dealing with form and content of accounting manuals have not been altered to reflect the changes and remain unamended since their issue in November 1990.

Having regard to the above changes and the requirement for all agencies to use accrual reporting commencing in the 1996-97 financial year, it is appropriate to review the requirements of the Treasurer's Instructions for the form and content of agencies' accounting manuals.

It must be recognised that, possibly due to other priorities, agencies have had difficulty over the last five years in complying with the Instructions for accounting manuals. A positive aspect of the experience of those years is that agencies accept the need for orderly documentation of policies and procedures. There will always be differing views on the form and level of detail of such documentation based mainly on the nature, size and complexity of the agency concerned.

For practical reasons there will also be a need to exclude operational type of guidance on specific financial systems from the accounting manual proper and to locate it in separate documents/volumes. Also more agencies may elect to maintain their “manuals” by electronic means for ease of amendment and wider access by employees.

Specific recommendations concerning the form and contents of accounting manuals are made later in this report.





## COMPLIANCE WITH OTHER SELECTED TREASURER'S INSTRUCTIONS

This audit was not restricted to examining agencies' compliance with only those Treasurer's Instructions directly concerned with accounting manuals. It was also planned to include a review of compliance with other selected Instructions.

It was considered that the other Instructions selected for review of compliance would complement the other findings of the audit in terms of agencies' "culture" for compliance with laid down procedures.

The Instructions reviewed for compliance and the findings in relation to individual agencies are summarised in Figure 4 which is shown on the next page. Details of findings in respect of each Instruction are provided below.

### TI 103 Access to Treasurer's Instructions

This Instruction states that -

*"Each Head of Agency shall ensure that sufficient copies of these Instructions, the Act and the Regulations are available for use within the agency."*

The documents referred to in the Instruction are the Financial Management and Audit Act 1990, the Financial Management and Audit Regulations 1990, and the Treasurer's Instructions issued under that Act. Copies of these documents together with a copy of the Public Account Act 1986, were combined in a Financial Management Manual which was issued to agencies in 1990 by the Department of Treasury and Finance which continues to provide amending pages to update copies of the Manual held by agencies.

Some 230 copies of the Manual were issued. Numbers held by agencies range from one to 34.

As part of this audit selected copies of the Manual were perused at each agency to determine whether they were being updated for changes to legislation and Instructions.

Manuals in only two agencies were found not to have been updated with the amendments issued to them. It was also noted that changes such as those to Schedule 1 of the FMAA (which describes the departments to which the Act applies) and the Regulations, were not included in amendments distributed to agencies by the Department of Treasury and Finance.

**FIGURE 4**

## TI 105 Compliance/Exemptions from Treasurer's Instructions

Section 23 of the FMAA requires each Head of Agency and officer to comply with any requirement of the Treasurer's Instructions that is applicable to that Head or officer. TI 105 provides for Instructions to be varied or to be made inapplicable to an agency, subject to the approval of the Treasurer.

The Office sought advice from agencies to determine whether they had undertaken any systematic review of all Instructions to establish whether they were failing to comply with any Instructions in order to either arrange compliance or seek formal exemptions from the Treasurer where compliance was inappropriate. Only one agency, Transport, had undertaken such a review. That review was commenced recently.

Advice was received from the Department of Treasury and Finance that a total of 11 agencies had applied for exemptions or variations to a total of only seven specific Instructions as follows:

<b><i>Number of Agencies</i></b>	<b><i>Instruction Number and Description</i></b>
1	TI 521 Prepaid Expenditure
1	TI 609 Postal Remittances
1	TI 611 Remittance of Public Moneys to the Department of Treasury and Finance
4	TI 702 Financial Statements
2	TI 901 Asset Registers
1	TI 902 Purchasing
1	TI 903 Tenders

Only two of the Instructions listed above were included in the 10 TIs selected by the Office (in addition to the TIs relating to accounting manuals) for testing of compliance as summarised in Figure 4; they are TI 521 and TI 902.

It can be seen from Figure 4 that there was a lack of full compliance by some agencies in respect of the tested Instructions, without approval of the Treasurer.

It was particularly relevant that no agency had obtained any exemption from the Instructions relating to form and contents of its accounting manual despite the facts revealed by this audit that no agency had fully complied with those Instructions.

## TI 504 Appointment of Certifying Officers (Sec 22 of FMAA)

The functions associated with the role of certifying officers are a major control over expenditure by agencies. That status derives from -

- Section 15 of the FMAA which states that “An officer shall not incur expenditure in the course of official duties unless that expenditure is certified as correct by a certifying officer in accordance with the Treasurer's Instructions”;

- Section 22 (h) of the FMAA which includes amongst a Head of Agency's financial management responsibilities *"the appointment of one or more officers in that Agency as certifying officers charged with the duty of certifying all expenditure of that Agency"*;
- TI 504 which restates the requirements of Section 22 (h) to appoint certifying officers and requires appointments to be in writing. It also requires the names of appointees and details of any variations/revocations of appointments to be included in accounting manuals; and
- TI 505 which prescribes the duties of certifying officers.

It was found that the majority of agencies substantially complied with the appointment requirements of TI 504. Shortcomings were noted as follows:

- The majority of agencies failed to record variations and revocations of appointments in their accounting manuals;
- Expenditure transactions had been certified in three agencies by persons who had not been appointed as certifying officers;
- One agency made appointments by persons' position titles rather than by their names.
- Heads of two small agencies routinely performed certifying officer functions without being appointed. (Under the provisions of the FMAA it is technically possible for Heads to appoint themselves as certifying officers.)

## **TI 505 Duties of Certifying Officers (Sec 15 of FMAA)**

This Instruction, the contents of which are reproduced as Appendix 5 to this report, prescribes in some detail the checking duties of persons appointed as certifying officers.

Paragraph (4) of the Instruction permits Heads of Agency to adopt a risk management policy whereby certifying officers are not required to undertake some of the prescribed checks.

Only one agency has a formal policy on limiting the checking required of certifying officers by the Instruction. However several agencies conceded that individual officers may be using some risk management based on their personal judgement of risk, at the time when they are certifying expenditure.

There is no practical means of verifying whether certifying officers conscientiously perform their control function. However, it is a concern that the majority of agencies do not specifically provide their certifying officers with a copy of this Instruction as a means of communicating the responsibilities of the position at the time of appointment.

## TI 511 Payment by Cheque

This Instruction provides for payments in most circumstances to be made by cheques payable to “order” and crossed “not negotiable”. This form of payment minimises the liability of the Crown where cheques are fraudulently negotiated.

Compliance by agencies with these requirements was generally comprehensive. Two agencies were issuing cheques payable to “bearer” contrary to the Instruction.

## TI 512 Preparation and Handling of Cheques

This Instruction requires two persons, one of whom is not also a certifying officer, to sign cheques and to undertake basic checking in relation to the payments involved.

It was not practicable for the Office to attempt an evaluation of the extent of checking actually undertaken by cheque signatories at the time they sign cheques and to express an opinion on the quality of that checking. However, it was found that the majority of agencies were complying comprehensively with the other signing provisions of the Instruction. Exceptions were noted as follows:

- In one agency all cheque signatories were also certifying officers contrary to the Instruction;
- In two agencies only one signatory was not also a certifying officer resulting in considerable potential for breach of the Instruction unless that signatory was involved in signing all cheques;
- Cheque signing in two agencies was automated using only one facsimile signature without specific approval under the Instruction from the Treasurer.

When cheques are personally signed, particularly by someone other than the certifying officer, there is an element of internal control because the person signing is required to match the payment with supporting documentation. That control is absent when cheques are issued using facsimile signatures as the signing is usually fully automated. A trend away from personal signing of cheques is anticipated following the decommissioning of the Department of Treasury and Finance’s central Computerised Financial System and the resulting need for agencies to themselves to pay all their creditors.

## TI 521 Prepaid Expenditure

This Instruction prohibits payment in advance of receipt of goods/services in circumstances other than where payment in advance is normal commercial practice e.g. for telephone rentals, subscriptions, insurance premiums etc.

Office testing of documentation held by agencies in support of samples of payments made in recent months did not disclose any cases of non-compliance with this Instruction.

## **TI 604 Authorisation of Officers to Receive Moneys, etc.**

This Instruction requires Heads of Agency to authorise one or more officers to collect or receive money on behalf of their agency and to arrange, for the persons so appointed, appropriate segregation from duties such as banking and other revenue control or recording functions.

The Legislative Council and the House of Assembly do not have a collection function. However, all other agencies advised the Office that, whenever practicable, segregation of functions was maintained in their revenue raising and collection areas.

Only two agencies have fully complied with the appointment requirements of this Instruction. The other agencies (other than the Houses of Parliament) have indicated that the attribution of collection functions to individual officers is implicit in those officers' position descriptions. Therefore it was concluded that these agencies are complying with the Instruction in a limited way only.

## **TI 902 Purchasing (compliance with delegations, imposed limits etc.)**

This Instruction, the contents of which are reproduced as Appendix 6 to this report, prescribes in some detail the basic policies, principles and ethics applying to agencies in respect of "all purchases of supplies, goods and services, leases or rentals of equipment, and disposals of property ...."

For the purposes of this audit it was originally intended that the review of this Instruction be limited to an assessment of the way in which Heads of Agency had included in their agencies' accounting manuals the financial delegations which would allow purchases of goods and services to be made on behalf of the agencies in an organised and legitimate manner. Testing of samples of transactions to ensure compliance by agencies with their financial delegations was also planned. However, these objectives were modified due to the preliminary audit findings arising from an Audit survey of actual instruments of delegation held by agencies and the legislation which agencies perceived as providing a basis for their delegations. The Preliminary findings showed that there was a lack of consistency in the way various agencies arranged financial delegations. Only five out of the 15 agencies surveyed used Instruction 902 as their legal source of delegation; however, even then, it appeared to be used in an inappropriate manner.

The framework for purchasing delegations available through Instruction 902 is summarised as follows:

- Purchases are to be made by a person authorised under the Instruction.
- The Instruction, through paragraph (2) authorises the *Secretary of the Department of Treasury and Finance*, and any person nominated by the Secretary who is -

an officer employed in the State Purchasing and Sales Division of the Department of Treasury and Finance; or

\* a Head of Agency; or

a person recommended by their Head of Agency, and whose nomination is in writing signed by the Secretary.

- \* In January 1995 the Instruction was relaxed by amending paragraph (7) in a way which provides Heads of Agency with direct authority to make purchases of goods and services costing less than \$50,000 without being specifically authorised to do so by the Secretary of the Department of Treasury and Finance.

The five Heads of Agency who used Instruction 902 to delegate their purchasing powers to officers in their agency did not obtain the signature of the Secretary of the Department of Treasury and Finance for the instruments of delegation. This is contrary to the delegation framework in the Instruction. As a consequence there is a concern that those instruments could be considered to be technically flawed.

In response to these concerns the Secretary of the Department of Treasury and Finance has advised the Office that -

*“..... the intention of TI 902 is to establish principles, practices and procedures with respect to the types of departmental purchasing traditionally undertaken by the State Purchasing and Sales Division. In this regard, a key element of TI 902 relates to the general delegation which provides for the purchase of goods and services costing less than \$50,000 to be made at the discretion of agencies.*

*Since Heads of Agencies have delegated authority for certain purchases, it is also intended that they be responsible for the appointment of officers with purchasing responsibilities.*

*I note your preliminary view that the delegation provisions contained in TI 902 (2) (b) may be capable of misinterpretation. In view of your concerns, this issue will be examined as part of the annual review of Treasurer’s Instructions.”*

Of course agencies’ activities involve many categories of procurements other than those traditionally undertaken by the State Purchasing and Sales Division. They include:

- consultancies
- electricity
- waste disposal
- telecommunications
- subscriptions
- entertainment
- acquisition of real estate
- repairs and maintenance of buildings
- improvements to land and buildings
- grants-in-aid for service delivery by community organisations

Financial delegations for making such procurements should all be capable of being properly structured by reference to appropriate legislation and of being documented. Without appropriate structures and documentation it is unlikely that Heads of Agency can be satisfied either directly or indirectly through their appointed certifying officers, that officers employed in their agencies are not financially committing the Crown to future obligations without proper authority.

This is an issue affecting the Treasurer as well as Ministers.

Accordingly the issue of appropriate structures and documentation for financial delegations has been referred recently to the Secretary of the Department of Treasury and Finance and the Solicitor-General for consideration and provision of practical guidance to agencies. No resolution of the matters referred has yet been achieved.

Despite the uncertainties surrounding the validity of agencies' financial delegations referred to above, some limited audit testing was undertaken to determine whether selected agencies were in fact complying with the "intent" of their financial delegations. Several exceptions were noted and referred to the relevant agencies for their information.

## **TI 1002 Accountable Forms**

This Instruction requires agencies to maintain a register of accountable forms in which details are to be recorded of stocks received, stocks issued and stock on hand. The stocks on hand are to be subjected to regular internal checking by the agencies to ensure that stocks actually on hand are consistent with quantities recorded.

Accountable forms typically include order books, receipt forms, cheque forms, licences and invoices/credit notes.

Just four agencies were found to be complying comprehensively with this Instruction. The remaining agencies complied only partially because they either included some of their accountable forms in a register and not others, or they only made entries in the register as forms were issued and not when they were received.

An accountable forms register which is incomplete can neither provide a proper basis for checking accuracy of forms on hand, nor a basis for determining to whom forms were issued. In effect, it cannot be considered to be a useful resource in assisting an agency to account for forms which could be fraudulently mis-used or mis-applied due to administrative error.



## **FUTURE ROLE OF ACCOUNTING MANUALS AND TREASURER'S INSTRUCTIONS**

This audit was very timely from two points of view.

Firstly it has provided a detailed evaluation of agencies' performance in terms of their commitment over a period of several years to comply with directions contained in the Treasurer's Instructions not only in relation to accounting manuals but also to other financial controls and responsibilities.

Secondly its findings are available at a time when there is a need to consider the relevance or appropriateness of the majority, if not all, of the Treasurer's Instructions in the form and structure in which they were first issued in November 1990.

### **Agencies' Commitment to the Treasurer's Instructions**

Although the Treasurer's Instructions are not statutory rules within the meaning of the Rules Publication Act 1953, they are nevertheless required under Section 23 of the FMAA to be observed by each Head of Agency and officer where applicable. The FMAA does not prescribe penalties for non-compliance with Instructions and it is probable that Instructions may be perceived by Heads and officers as merely providing "guidance". This view may be supported to some extent by the "Foreword" issued with the Instructions which in the first paragraph states that the Instructions "..... have the force of law and therefore apply to all agencies or parts of agencies unless exempted", and in a later paragraph dealing with contents of accounting manuals states that the "..... Instructions currently present a "check list" of items suggested for inclusion in the manual". However the Instructions concerned are, in fact, prescriptive rather than suggestive.

The Secretary of the Department of Treasury and Finance is responsible under delegated authority from the Treasurer, for the issue of (and granting exemptions from) Treasurer's Instructions. However, the Department of Treasury and Finance does not monitor compliance. Some aspects of compliance, particularly with Instructions covering valuation of assets and preparation of financial statements, are routinely assessed by the Tasmanian Audit Office in the course of its annual audits of agencies' accounts. Any material non-compliance is referred for remedial action. In most other respects the monitoring of overall compliance would depend on self-assessment by the agencies themselves.

As mentioned previously in this report there has been no structured self-assessment except by one agency, and that did not occur until early 1996. Clearly, compliance with Instructions is not seen by agencies as a priority.

## Relevance of Treasurer's Instructions

The challenge for the Department of Treasury and Finance in documenting financial management requirements for all agencies to follow is to provide coverage of all major aspects of financial management as well as finding the right balance between *prescription* on the one hand and *devolution* on the other. At present, some relatively minor issues relating to financial management are comprehensively covered by the Instructions while important areas such as those relating to budgetary control and financial delegations, receive only incidental mention.

The Treasurer's Instructions are not generally reflective of the Government's current financial reform agenda. The most recent review of the Instructions which occurred in June 1996 was largely attributable to the decommissioning of the centralised Computerised Financial System and implementation by individual agencies of their own financial management systems. That review resulted in 25 Instructions being deleted and 14 being modified out of a total of 100 Instructions in force before the review. Only one new Instruction was issued as part of the review. In addition 15 standard forms out of a total of 19 forms linked to specific Instructions were abolished.

The wider reform agenda includes a substantial degree of devolution of responsibilities to agencies for total management of resources and costing of services. This is being largely achieved through agencies, with effect from the 1996-97 financial year, being required to:

- receive funding from the Consolidated Fund in "bulk" appropriations for their *recurrent services* and *works and services* categories of expenditure, rather than through numerous separate line items as in the past;
- process their transactions, in-so-far as is possible, in just a single operating account and through independently managed financial systems;
- adopt accrual accounting in addition to cash based financial reporting; and
- use output costing for goods and services they provide, including recognition of the costs of accommodation and salary overheads such as pay-roll tax and employer superannuation costs.

The extent of these reforms calls for an urgent reassessment to be undertaken of the relevance and appropriateness of the existing Treasurer's Instructions.

A possible solution could be to rescind all existing Instructions and issue new instructions which would simply provide a framework of objectives for financial management which agencies would need to implement and monitor.

Components of the framework could include, for example, requirements for each agency to:

- conform with any restrictions on financial activity such as opening bank accounts, investing funds, borrowing, lending and giving guarantees;
- provide the Treasurer with daily or other periodic specified financial information;
- comply with specified core accounting policies issued by the Department of Treasury and Finance as being applicable to agencies generally; and
- have an accounting manual appropriate to the needs of the agency.

In developing such a framework careful consideration would need to be given to providing all relevant linkages to other directives or guidelines issued to agencies for purposes of their financial management. For example, consideration would need to be given to the place within that framework of the -

Guidelines for the Recording, Valuation and Reporting of Non-Current Assets in Tasmanian Government Departments issued to agencies in June 1995;

Accrual Accounting Manual Promulgated to agencies in December 1995 (and any guidance releases issued in consequence of that Manual); and

Accounting Standards issued jointly from time to time by the Australian professional accounting bodies.

## **Structure of Agencies' Accounting Manuals**

At present, the accounting manual is seen as a comprehensive stand-alone document that has to cover all facets of financial administration including payroll, tendering, handling cash, insurance, asset recording etc. Treasurer's Instructions list the required elements.

An alternative approach to compiling an accounting manual is to develop a document that integrates the high level financial structures applying to the agency with other documents or manuals which separately describe procedures in some detail; the integration being achieved by appropriate cross-references to other relevant documents. The manual content could, for example, be arranged in a way which -

describes, at a reasonably high level, the agency's organisation structure, objectives, outputs and financial systems;

gives recognition to any "core" accounting instructions or policies issued by the Department of Treasury and Finance;

explains any “agency specific” accounting policies which operate in conjunction with or in addition to any mandatory or core accounting policies mandated by the Department of Treasury and Finance;

contains details of the agency’s financial delegations or refers to where those details can be found;

provides references to type and location of other separate documentation within the agency for major financial systems such as creditors, payroll, debtors and general ledger, including chart of accounts;

describes the agency’s budgetary control procedures;

lists the composition and objectives of the agency’s audit committee (if the agency has one); and

includes the agency’s internal audit charter (if internal audit has been established).

The linking of the manual to separate documentation for financial systems through cross-references in the manual to those documents would serve to keep the volume of text in the manual at a manageably low level. This approach would also minimise the need for, and frequency of, changes to the manual with consequential savings in resources.

It is therefore recommended that the Treasurer’s Instructions relating to agencies’ accounting manuals be changed to remove many of the detailed prescriptive components and replace them with objectives to be met. It may be sufficient, for example, to require agencies to maintain documentation of overall financial structures and significant financial policies, systems, procedures and controls at a level appropriate to the needs of the agency.

## CONTROL OF ORGANISATIONAL AND FINANCIAL RISK

As previously stated, the associated objectives of this audit included consideration and assessment of risk management and quality assurance issues. The findings, some of which have previously been referred to in this report, are summarised below:

Only four of the 14 agencies surveyed by the Office have undertaken a structured assessment of their organisational risks, with three of those agencies including their risk management policy in their accounting manual. Two other agencies indicated that one segment only of their organisation had been assessed.

Only four of the same 14 agencies' accounting manuals provide to some extent for the on-going evaluation of the operation of internal controls.

Only three agencies out of the total of 18 agencies in the inner-budget area have a formally structured and operative audit committee (or equivalent).

There is no direct correlation between the agencies which rated favourably on each of the above risk control initiatives.

It was also noted that, 11 of the 14 agencies surveyed claimed to have an internal audit or other quality assurance process, with four of those agencies claiming its extent was *comprehensive* and another four *substantial*. However it was considered by the Office that the relatively high ratings were based on a possible over-estimation by some agencies of the effectiveness of internal audit when it operates without oversight from an audit committee and outside of a total risk management framework.

In addition to the general requirement of Section 23 of the FMAA for Heads of Agency to comply with Treasurer's Instructions, Heads have specific responsibilities under Section 22 "*..... for the financial management of their agency in an efficient, effective and economical manner including in particular -*

- (a) ensuring that expenditure by the Agency is in accordance with law; and*
- (b) maintaining effective accounting and financial management information systems for that Agency; and*
- (c) the development and maintenance in accordance with the Treasurer's Instructions of a system of effective internal control including, where appropriate an internal audit function; and*
- (d) systematically monitoring the financial performance of that Agency; and*

*(e) the custody, control, management of and accounting for, all public property, public money, other property and other money in the possession of, or under the control of, that Agency; and*

*(f) the proper collection of all money payable to, or collectable under, any law administered by that Agency; and*

*(g) regular reviews at least annually of fees and charges collected by or payable to that Agency; and*

*(h) the appointment of one or more officers in that Agency as certifying officers charged with the duty of certifying all expenditure of that Agency; and*

*(i) any other functions and duties as may be required under this Act, any other written law or the Treasurer's Instructions.'*

Having regard to the extent of these responsibilities and the relative complexities of the larger agencies, it would appear essential to have some process of on-going self-assessment of compliance in at least the larger agencies to provide the Heads of Agency with appropriate assurance as to whether they are in fact meeting their statutory responsibilities. This would be best achieved through the establishment within the agency of an audit committee whose purpose would be to:

assess the agency's risks;

develop an appropriate risk management strategy;

establish and co-ordinate an internal audit function;

liaise with the external auditor; and

keep the Head of Agency advised on the assurance obtained.

The Office's experience with statutory authorities indicates that a higher priority is given to issues of internal control and quality assurance when they have an active audit committee. In fact all statutory authorities covered by the Government Business Enterprises Act 1995 are now obliged to establish an audit committee.

In practical terms all agencies, including the small ones, would benefit from having an audit committee whose membership is not only drawn from senior management but also includes at least one member from outside the agency. The inclusion of a member from outside the agency would assist committees with maintaining objectivity and provide a means of obtaining a member with experience in risk and control management to supplement the experience of agency members.

## APPENDIX 1

### 301 FORM AND CONTENT OF ACCOUNTING MANUALS

- (1) An accounting manual shall be prepared for the Agency in such a manner as to:
  - a) provide relevant current and reliable information detailing all major accounting systems in place in the Agency, supplementing narrative with flow-charts, diagrams and sample documents where appropriate;
  - b) provide clear and concise descriptions of practices and procedures relating to accounting and financial management, making reference to standard forms where appropriate;
  - c) facilitate quick reference by officers at all levels of responsibility; and
  - d) facilitate amendment.
- (2) Having regard for Instruction 302 accounting manuals shall, where applicable, contain information in respect of the following matters:
  - a) the purpose, scope and use of the manual;
  - b) the legislative authority for the functions of the agency and any statutory office holders or Statutory authorities attached to the Agency.
  - c) descriptions and charts of the financial organisation of the Agency;
  - d) the functions and duties of officers as they relate to the accounting and financial administration functions within the Agency;
  - e) a summary of the control exercised by Parliament, the Governor-in-Council and the Treasurer over the financial administration of the Agency, including references to powers under the Act and the Public Account Act where appropriate;
  - f) a chart of all accounts used within the Agency including CFS cost-codes and accounts relating to the Agency's own system of accounts where appropriate, in such a manner as to assist in the proper classification of transactions for both Agency management purposes and the central reporting of transactions against the Public Account;
  - g) funding sources;

- h) extent of delegations given by the Head of Agency;
  - i) the basis of accounting and the extent to which, if any, the agency has adopted the Australian Accounting Standards; and
  - j) the date of application of the accounting manual
- (3) Having regard to Instruction 302, the Accounting Manual shall contain details of procedures and practices in so far as they apply to the Agency, with respect to the following:
- a) control of and accounting for public moneys and other moneys receivable including the operation of clearing accounts where applicable;
  - b) control of and accounting for, expenditure including payments from the Public Account, advance accounts, petty cash floats, or any other account, float or advance controlled or operated by the Agency;
  - c) budgetary control including action to avoid exceeding appropriation limits and processes involved in requesting additional funds;
  - d) the keeping of accounts in relation to any manufacturing, trading or commercial activity conducted by the Agency;
  - e) purchase, custody, control, checking, management, recording, write-off and disposal of assets including public property and other property;
  - f) supervision and control of cash registers and other electronic receipting machines and terminals;
  - g) calling and letting of tenders;
  - h) back-up and recovery of all computer systems used for the processing and storage of accounting and financial information;
  - i) password/privacy controls for all computerised financial systems including CFS;
  - j) credit management and accounts receivable processes;
  - k) collection and opening of departmental mail, and the recording of cash, cheques and other postal remittances;
  - l) pricing of agency goods and services including the methodology and timing of pricing reviews;
  - m) security for the handling of cash receipts and cash for payrolls or other purposes including the method of handling discrepancies;



- n) appointment of and names of cheque signatories;
- o) names of certifying officers;
- p) cheque signing;
- q) ordering, custody, control and use of accountable forms and documents including cheques;
- r) reconciliation of pay records;
- s) issue, safeguarding and use of keys and secure storage combinations, including the control of duplicates;
- t) security of all property of or under the control of the Agency whether hired, leased or borrowed;
- u) reconciliation of creditors monthly statements of account to ensure that all payments have been credited, and that the reasons for the non-payment of outstanding invoices are investigated and appropriate action taken;
- v) control of returnable containers for which rental is payable and that such procedures include the reconciliation of container returns, holdings and deliveries with every account for container rental;
- w) purchase, control and use of postage stamps and or franking machines;
- x) permanent or temporary handover of the duties of an officer authorised to receive moneys including the following minimum requirements:
  - i) reconciliation of all petty cash and other advances held; and
  - ii) the completion of a handover statement covering all moneys and monetary forms and books held.
- y) maintenance agreements; leases and contracts;
- z) policies, procedures and practices in regard to insurance; and
- za) such other matters as are desirable to achieve the objectives and purposes of the Act and the effective financial management of the Agency.



## APPENDIX 2

### 302 POLICIES IN RESPECT TO RISK MANAGEMENT AND INTERNAL CONTROL

- (1) When specifying procedures, processes and practices in Agency Accounting Manuals, Heads of Agency are to exercise effective risk management which involves reducing the potential for loss through the implementation of adequate preventative measures, while providing scope for improved resource management strategies.
- (2) In developing Accounting Manuals, Heads of Agency are to establish policies in relation to internal control which address the objectives of:
  - a) reliability and integrity of information;
  - b) compliance with policies, plans, procedures, laws and regulations;
  - c) safeguarding of assets;
  - d) effectiveness and efficiency of operation;
  - e) accomplishment of organisational goals and objectives;
  - f) preventing error and fraud in the financial transactions;
  - g) ensuring that all revenue due to the Agency is collected promptly;
  - h) ensuring that expenditure by the Agency is authorised and bona fide.



## APPENDIX 3

### 303 CUSTODY AND CONTROL OF ACCOUNTING MANUALS

- (1) An Agency shall ensure that:
- a) all copies of the Accounting Manual are individually numbered and that a distribution register is maintained within the Agency;
  - b) procedures are put in place which will maintain each copy of the accounting manual in an up to date state;
  - c) sufficient copies of the Accounting Manual are available so that all appropriate officers have access to a copy;
  - d) an up-to-date copy of the Accounting Manual is available to the Auditor-General on request, in order for him to carry out the functions prescribed by the Act or any other Act;
  - e) the accounting manual is consistent with the Act.



## APPENDIX 4

### DEPARTMENTAL ACCOUNTING MANUAL

#### SELF-ASSESSMENT BY A DEPARTMENT OF THE EXTENT OF COMPLIANCE WITH TREASURER'S INSTRUCTIONS

**DEPARTMENT:** .....

**TITLE OF MANUAL:** .....

### PART A

#### Treasurer's Instruction No 301 " Form and Content of Accounting Manuals"

Sub-component of Treasurer's Instruction 301	Accounting Manual Reference etc eg Volume, Section, Page no. or "Not in Manual" or "Not Applicable"	If in the Manual, is the Extent of Compliance "Limited" or "Substantial" or "Comprehensive"	Was a Treasurer's Exemption/Variation Obtained to Justify Non-Compliance "Yes" or "No" (If "Yes" attach copy)
301 (1) (a)			
301 (1) (b)			
301 (1) (c)			
301 (1) (d)			
301 (2) (a)			
301 (2) (b)			
301 (2) (c)			
301 (2) (d)			
301 (2) (e)			
301 (2) (f)			
301 (2) (g)			
301 (2) (h)			
301 (2) (i)			
301 (2) (j)			

Page 1

Part A (continued)

Sub-component of Treasurer's Instruction 301	Accounting Manual Reference etc eg Volume, Section, Page no. or "Not in Manual" or "Not Applicable"	If in the Manual, is the Extent of Compliance "Limited" or "Substantial" or "Comprehensive"	Was a Treasurer's Exemption/Variation Obtained to Justify Non-Compliance "Yes" or "No" (If "Yes" attach copy)
301 (3) (a)			
301 (3) (b)			
301 (3) (c)			
301 (3) (d)			
301 (3) (e)			
301 (3) (f)			
301 (3) (g)			
301 (3) (h)			
301 (3) (i)			
301 (3) (j)			
301 (3) (k)			
301 (3) (l)			
301 (3) (m)			
301 (3) (n)			
301 (3) (o)			
301 (3) (p)			
301 (3) (q)			
301 (3) (r)			
301 (3) (s)			
301 (3) (t)			
301 (3) (u)			
301 (3) (v)			
301 (3) (w)			
301 (3) (x)			
301 (3) (y)			
301 (3) (z)			



## PART B

### Treasurer's Instruction No 302 "Policies in Respect of Risk Management and Internal Control"

TI 302 (1) States that:

*"When specifying procedures, processes and practices in Agency Accounting Manuals, Heads of Agency are to exercise effective risk management which involves reducing the potential for loss through the implementation of adequate preventative measures, while providing scope for improved resource management strategies."*

Question	Department's Response
Has your Department undertaken a structured assessment of its organisational risks and the potential financial impact of those risks? <i>Yes/No</i>	
Has your Department formulated a policy in relation to the management of its risks? <i>Yes/No</i>	
If your Department has formulated a risk management policy, where is that policy documented? In the Accounting Manual or in some other document eg in Annual Report as provided for in TI 701 (1) (f) ? <i>(Please Specify)</i>	

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Part B (continued)

TI 302 (2) States that:

*“In developing Accounting Manuals, Heads of Agency are to establish policies in relation to internal controls which address the objectives of:*

- (a) reliability and integrity of information*
- (b) compliance with policies, plans, procedures, laws and regulations*
- (c) safeguarding of assets*
- (d) effectiveness and efficiency of operations*
- (e) accomplishment of organisational goals and objectives*
- (f) preventing error and fraud in the financial transactions*
- (g) ensuring that that all revenue due to the Agency is collected promptly*
- (h) ensuring that expenditure by the Agency is authorised and bona fide.”*

Question	Department's Response
Do you consider that the way internal controls have been documented in the Accounting Manual has provided “limited”, “substantial” or “comprehensive” compliance with TI 302 (2) ?	
Do you consider that the Accounting Manual provides for the ongoing evaluation of the operation of internal controls?  Yes/No  And if “yes”, in what part(s) of the Manual is that requirement documented?  Volume, Section Page No. etc	
Does the Department have an Internal Audit or other Quality Assurance process to monitor whether internal controls are operating as intended?  Yes/No  And if “yes”, would you describe the monitoring process as being “Limited”, “Substantial” or “Comprehensive”?	

## PART C

### Treasurer's Instruction 303 "Custody and Control of Accounting Manuals"

Question	Department's Response
TI 303 (a): Are all the copies of the Accounting Manual individually numbered and a distribution register maintained showing to whom each copy has been issued? <i>Yes/No</i>	
TI 303 (b): Are procedures in place to ensure that each copy of the Manual is in an up-to-date condition? <i>Yes/No</i>	
TI 303(c): Are sufficient copies of the Manual available for all appropriate officers to have access to a copy? <i>Yes/No</i>	
How many copies of the Manual were produced? <i>Specify</i>	
How many copies of the Manual are currently on issue? <i>Specify</i>	



## APPENDIX 5

### 505 DUTIES OF CERTIFYING OFFICERS

- (1) Every payment and journal voucher shall be signed by a certifying officer.
- (2) Before signing pursuant to paragraph (1) the certifying officer shall undertake any necessary enquires to ensure that:
  - a) the expenditure is lawful;
  - b) goods to which the expenditure relates have been received and/or services have been provided, and that except as provided by Instruction 521, the expenditure does not include a prepayment;
  - c) expenditure is approved and funds are available for payment in accordance with:
    - i) the Treasurer's Expenditure Control Authority; and
    - ii) the Appropriation Act and any approved variations in accordance with the Public Account Act and the Act;provided that certification shall not be conditional on the receipt of any such approval;
  - d) the payment has been classified against an appropriate Public Account item and/or other cost code; and
  - e) in the case of journal vouchers, sufficient information to support the entries is included on the voucher, and that the journals are complete in every respect before being processed.
- (3) Subject to paragraph (4) the certifying officer before signing pursuant to paragraph (1) shall also undertake any necessary enquiries to ensure that:
  - a) all relevant procedures set down in these Instructions have been observed;
  - b) all relevant procedures set down in the Agency's Accounting Manual have been observed;
  - c) the amount charged for the goods or services is in accordance with an attached Government order, a quoted price or such other documentation as may be appropriate;
  - d) discounts have been deducted from the amount payable wherever available;

- e) sales tax is not included in the amount payable shown on the voucher;
  - f) the claim or part of it has not been previously paid, and if payment is made on a statement, that payment has not previously been made by way of invoice;
  - g) the computation of the amount payable is arithmetically correct and stated in a manner that will permit the calculations to be readily verified;
  - h) there are no erasures on the payment voucher, the writing is legible and in ink or other indelible form; and
  - i) any alteration in an amount of a payment voucher shall be initialled by the certifying officer.
- (4) Heads of Agencies may, where satisfied that appropriate internal controls exist, adopt a risk management policy whereby certifying officers are not required to undertake all the checks required under (3) prior to certifying categories of vouchers considered to be of low risk.

**GUIDELINES:**

- 1) In assessing risk for the purpose of paragraph (4), Heads of Agency should balance the cost of detailed checking and certification against the value of the payment, and the relative risk associated with any error (eg recovery cost). For example, small value accounts may be subjected to a reduced level of check, and small errors may not be corrected. The certifying officer may be permitted to exercise judgement in certain circumstances.
- 2) In conjunction with the reduced checks, Heads of Agency should instruct their internal auditors (where available) to undertake sample checks of each category of accounts for which reduced checks have been introduced.

## APPENDIX 6

### 902 PURCHASING

- (1) All purchases of supplies, goods and services, leases or rentals of equipment, and disposals of property must be made in the name of the Crown or relevant Statutory Corporation;
  - a) by a person authorised under this Instruction; and
  - b) in accordance with the guidelines incorporated within this Instruction, having regard for relevant purchasing policy issued by the Government.
- (2) The following persons are authorised by this Instruction:
  - a) the Secretary of the Department of Treasury and Finance;
  - b) any person nominated by the Secretary, who is:
    - i) an officer employed in the State Purchasing and Sales Division of the Department of Treasury and Finance (SPS);
    - ii) a Head of Agency; or
    - iii) a person employed in an Agency who is recommended by the Head of Agency, and whose nomination is in writing and signed by the Secretary.
- (3) The authority of a person authorised under (2)(b) above may be subject to monetary limits or other conditions determined by the Secretary.
- (4) Government purchasing is based on the following principles:
  - a) the purchase of common-use and higher value items should be carried out by SPS;
  - b) to minimise processing costs the purchase of lower value, non-contract items should be managed directly by agencies;
  - c) purchasing should be carried out consistently, equitably, openly and competitively; and
  - d) the Tasmanian Government supports the Government Procurement Agreement, which abolishes State purchasing preferences which discriminate between suppliers on the basis of State of origin, and

provides preferential support for goods and services offered by Australian and New Zealand suppliers.

- (5) Officers involved in activities covered by Instructions 902, 903 and 904 shall observe the following code of ethics:
- a) conduct all business in the best interests of the State and avoid any situation which may impinge or might be deemed to impinge on impartiality;
  - b) purchase without prejudice and maximise value in all transactions;
  - c) maintain confidentiality in all dealings;
  - d) decline gifts, gratuities or any other benefits which may influence or might be deemed to influence equitability or impartiality.
- (6) Where SPS has established Government contracts for the supply of common-use goods or services, agencies are required to use these contracts unless otherwise authorised by the Secretary.
- (7) The purchase of goods and services costing less than \$50 000, other than those on contract as in (6) above, may be arranged at the discretion of the Head of Agency, having due regard for the processes defined in this Instruction. The purchase of goods and services costing more than \$50 000 must be arranged through SPS.
- (8) At the discretion of the Head of Agency and having regard to the code of ethics detailed in this Instruction, verbal quotations may be obtained for the purchase of goods and services costing less than \$10 000.
- (9) Written quotations are to be obtained for the purchase of goods and services costing more than \$10 000 but less than \$50 000. At least three quotations should be obtained, where possible, with details of all quotations received recorded in an appropriate manner. In obtaining quotations the procedures to be followed are:-
- a) quotation documents should include all terms and conditions of quotation, together with a clear description of the goods or services required, and details of any applicable Government policies;
  - b) the specifications should not be designed to restrict competition, reflect bias to any brand, or act as a barrier to the consideration of any alternatives;
  - c) invitations to quote need not be advertised unless it is considered advantageous to do so;
  - d) each quotation is to be allocated a specific closing time, date and place of lodgment, which is to be clearly stated in all quotation documents.



Quotations received prior to the closing time are to be held in a secure location to maintain confidentiality.

- e) all quotations submitted are to be clearly marked with the time and date of receipt, and recorded in an appropriate schedule or register;
- f) when evaluating quotations it is necessary to consider and document details relating to:
  - i) value for money, taking into account estimated life, disposal value and maintenance requirements and costs;
  - ii) price;
  - iii) compliance with quotation specifications;
  - iv) quality, delivery and service; and
- g) any relevant Government policy.



## PREVIOUS REPORTS TO PARLIAMENT

1992	SPECIAL REPORT NO. 1	REGIONAL HEALTH SUPPORT SERVICES
1992	SPECIAL REPORT NO. 2	STUDENT TRANSPORT
1993	SPECIAL REPORT NO. 3	EDUCATION INSTITUTIONS CLEANING SERVICES
1993	SPECIAL REPORT NO. 4	STANDARD OF ANNUAL REPORTING BY GOVERNMENT DEPARTMENTS
1993	SPECIAL REPORT NO. 5	MUNICIPAL SOLID WASTE MANAGEMENT
1994	SPECIAL REPORT NO. 6	ADMINISTRATION AND ACCOUNTABILITY OF GRANTS
1994	SPECIAL REPORT NO. 7	REGIONAL HEALTH MEDICAL REVIEW
1994	SPECIAL REPORT NO. 8	WASTEWATER MANAGEMENT IN LOCAL GOVERNMENT
1995	SPECIAL REPORT NO. 9	HERITAGE COLLECTION MANAGEMENT
1995	SPECIAL REPORT NO. 10	OFFICE ACCOMMODATION MANAGEMENT
1995	SPECIAL REPORT NO. 11	RECORDING AND REPORTING BY GOVERNMENT DEPARTMENTS OF THEIR NON-CURRENT PHYSICAL ASSETS
1995	SPECIAL REPORT NO. 12	TENDERED WORKS
1996	SPECIAL REPORT NO. 13	NURSING COSTS IN TASMANIA
1996	SPECIAL REPORT NO. 14	REVIEW OF PERFORMANCE INDICATORS IN GOVERNMENT DEPARTMENTS
1996	SPECIAL REPORT NO. 15	CASH MANAGEMENT IN LOCAL GOVERNMENT