



2001

PARLIAMENT OF TASMANIA

**AUDITOR-GENERAL  
SPECIAL REPORT No. 39**

**BANK ACCOUNT RECONCILIATIONS  
IN GOVERNMENT DEPARTMENTS**

**December 2001**

*Presented to both Houses of Parliament in accordance with the provisions of Section 57 of the  
Financial Management and Audit Act 1990*

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20 December 2001

President  
Legislative Council  
HOBART

Speaker  
House of Assembly  
HOBART

Dear Mr President  
Dear Mr Speaker

**PERFORMANCE AUDIT NO. 39  
BANK ACCOUNT RECONCILIATIONS IN GOVERNMENT DEPARTMENTS**

This report has been prepared consequent to examinations conducted under section 44 of the *Financial Management and Audit Act 1990*, for submission to Parliament under the provisions of section 57 of the Act.

Performance audits seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, thereby identifying opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance Parliamentary decision making to the benefit of all Tasmanians.

Yours sincerely



A J McHugh  
AUDITOR-GENERAL

## CONTENTS

CONTENTS.....	I
LIST OF ACRONYMS AND ABBREVIATIONS.....	III
INTRODUCTION .....	1
AUDIT OPINION.....	3
AUDIT OBJECTIVES, APPROACH AND COST .....	7
AUDIT OBJECTIVE.....	7
SCOPE OF THE AUDIT .....	7
AUDIT METHODOLOGY .....	7
AUDIT RESOURCES AND TIMING .....	8
BACKGROUND .....	9
FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....	13
PART 1: WHOLE OF GOVERNMENT ISSUES.....	13
1    GENERAL FINDINGS AGAINST THE AUDIT CRITERIA .....	13
2    OTHER MATTERS: OVERDRAWN DEPARTMENTAL BANK ACCOUNTS.....	15
PART 2: AGENCIES .....	21
3    DEPARTMENT OF EDUCATION.....	23
4    DEPARTMENT OF HEALTH AND HUMAN SERVICES .....	27
4.1    HOUSING DIVISION .....	27
4.2    HEAD OFFICE .....	28
5    DEPARTMENT OF INFRASTRUCTURE, ENERGY AND RESOURCES.....	35
6    DEPARTMENT OF JUSTICE AND INDUSTRIAL RELATIONS.....	39
7    DEPARTMENT OF PREMIER AND CABINET.....	45
8    DEPARTMENT OF PRIMARY INDUSTRY, WATER AND ENVIRONMENT.....	49
9    DEPARTMENT OF POLICE AND PUBLIC SAFETY .....	51
10   DEPARTMENT OF STATE DEVELOPMENT .....	55
11   DEPARTMENT OF TREASURY AND FINANCE.....	57
12   EXECUTIVE AND LEGISLATURE.....	61
12.1    OFFICE OF THE GOVERNOR .....	61
12.2    LEGISLATIVE COUNCIL.....	65
12.3    LEGISLATURE GENERAL .....	67
12.4    HOUSE OF ASSEMBLY .....	69
13   UPDATE OF EARLIER VISITS.....	71
13.1.1    DEPARTMENT OF HEALTH AND HUMAN SERVICES - HOUSING DIVISION.....	71
13.1.2    DEPARTMENT OF HEALTH AND HUMAN SERVICES - HEAD OFFICE .....	72

13.2 DEPARTMENT OF PREMIER AND CABINET .....	73
13.3 DEPARTMENT OF POLICE AND PUBLIC SAFETY .....	73
13.4 DEPARTMENT OF PRIMARY INDUSTRY, WATER AND ENVIRONMENT .....	73
CONCLUSION.....	75
RECENT REPORTS .....	77

**LIST OF ACRONYMS AND ABBREVIATIONS**

DoE	Department of Education
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DJIR	Department of Justice and Industrial Relations
DPAC	Department of Premier and Cabinet
DPIWE	Department of Primary Industry, Water and Environment
DPPS	Department of Police and Public Safety
DSD	Department of State Development
EFT	Electronic funds transfer
Finance One	An accounting software package widely used by the public sector
TI	Treasurer's Instruction
Treasury	Department of Treasury and Finance



## INTRODUCTION

Section 44(b) of the *Financial Management and Audit Act 1990* empowers the Auditor-General to:

‘carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government departments or public bodies’.

This report relates to a cycle of compliance audits that were conducted by the Tasmanian Audit Office between December 2000 and November 2001.

Financial audits in recent years have highlighted areas of non-compliance in the reconciliation of bank accounts, a function that forms a fundamental control of departmental revenue and expenditure. The object of this audit was to accurately establish the degree of compliance by inner budget agencies with Treasurer’s Instruction (TI) 401 that deals with the operation of bank accounts. A secondary objective was to promote overall improvements in the management of bank reconciliations.





## AUDIT OPINION

<b>Report Title</b>	Bank Account Reconciliations in Government Departments
<b>Nature of the Audit</b>	The objective of this regulatory and compliance audit was to review bank reconciliations being performed by government agencies in compliance with TI 401, business rules and guidelines, the <i>Financial Management and Audit Act 1900</i> , the <i>Public Account Act 1986</i> , departmental policies and guidelines as well as generally accepted accounting practices.
<b>Responsible Parties</b>	<p>Departments of:</p> <ul style="list-style-type: none"> <li>• Education</li> <li>• Infrastructure, Energy and Resources</li> <li>• Health and Human Services</li> <li>• Justice and Industrial Relations</li> <li>• Premier and Cabinet</li> <li>• Primary Industries, Water and Environment</li> <li>• Police and Public Safety</li> <li>• State Development</li> <li>• Treasury and Finance</li> </ul> <p>The Executive and Legislature comprising:</p> <ul style="list-style-type: none"> <li>• Office of the Governor</li> <li>• Legislative Council</li> <li>• Legislature General</li> <li>• House of Assembly</li> </ul>
<b>Mandate</b>	<p>This audit has been carried out under the provisions of section 44(b) of the <i>Financial Management and Audit Act 1990</i> which states that:</p> <p style="padding-left: 40px;">‘The Auditor-General may carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government department or public bodies.’</p>

**Applicable Standards** This audit has been performed in accordance with Australian Auditing Standard AUS 806 'Performance Auditing' which states that:

'The objective of a performance audit is to enable the auditor to express an opinion whether, in all material respects, all or part of an entity's activities have been carried out economically, and/or efficiently and/or effectively.'

**Limitation on Audit Assurance** Audit procedures and observations were confined to the period from June 2000 to October 2001. In some instances, prior periods were examined but, generally, our report relates to work done by auditees during that period.

**Audit Criteria** The assessment of departmental management of bank reconciliations was ascertained under the following criteria:

1. The agency has an appropriate policy in place.
2. Bank accounts are reconciled at the end of each month and not later than one month thereafter.
3. The reconciliation is performed by an independent person.
4. The reconciliation is checked by an independent person.
5. The reconciliation is in accordance with agency policy.
6. Ascertain whether cheques have been held over from previous financial year.

Other pertinent matters that arose during the course of the audit were also reported.

**Opinion and Conclusions** During the audit, we found that there were departments where bank account reconciliations were performed to exacting standards reflecting high levels of

professionalism.

However, these standards were not ubiquitous and areas existed where we made recommendations aimed at improving performance. Based on the evidence collected, breaches of Treasurer's Instructions, agency guidelines and normally accepted business practice were observed. Significant findings were:

- Several departments presented 'reconciliations' for audit that were clearly incorrect and did not reconcile;
- Frequently, there were no clear policies in place to guide and support staff performing reconciliations. Occasionally, a lack of supervision of this function by senior staff was evident;
- A lack of training in the reconciliation process was apparent in places, particularly where departments were using accounting software packages that included bank reconciliation modules;
- Departments were holding cheques that were drawn at the end of the financial year and not dispatching them to payees - in one case a delay of 15 months was noted;
- One department had not resolved until recently a dispute with Treasury regarding expenditure of almost \$420 000 that dated back to 1993/94;
- Some 'reconciliations', rather than being made to general ledgers or cash books, just summarised the balance of the bank statement;
- One department had not reconciled a salary account with an annual turnover of \$231 million for several years. Audit established that this account was

approximately \$67 000 out of balance;

- One attempted reconciliation viewed by the Audit Office was out of balance by approximately \$5.2 million;
- Most departments had significant overdrafts without the Treasurer's approval as required by section 12 of the *Financial Management and Audit Act 1990*; and
- Generally, there appears to be a lack of awareness of the legislative force of TIs despite the requirements of section 23 of the *Financial Management and Audit Act 1990*.

## AUDIT OBJECTIVES, APPROACH AND COST

### **Audit Objective**

The objective of the audit was to ascertain the extent to which inner budget agencies achieved compliance with TI 401(8), which requires that:

‘An Agency shall ensure that all bank accounts are reconciled with appropriate departmental records on a timely basis, and at least monthly.’

### **Scope of the Audit**

The audit was conducted in all inner budget agencies encompassing nine government departments as well as the Office of the Governor, the Legislative Council, the Legislature General and the House of Assembly.

### **Audit Methodology**

Entry interviews were held with senior finance staff at each location to elaborate on the testing program and audit criteria to be employed as well as to identify bank accounts operated by the auditees. Evidence was collected from auditees during detailed examinations of their bank account reconciliation working papers.

At the cessation of audit field work, detailed discussion papers were produced and sent to auditees. The next phase of the audit process involved meetings at which any errors of fact were eliminated and minor matters resolved. Subsequently, a report was issued to the Head of Agency containing significant matters.

Some limited follow up work was undertaken prior to the finalisation of the report to check on what remedial action had occurred in relation to findings made at agencies visited in the early part of the audit.

Through the course of the fieldwork, several whole of government

issues emerged and these were discussed with Treasury staff at the end of the cycle of agency visits. The contents of this report are a distillation of those reports originally produced for Heads of Agencies together with matters raised with Treasury.

**Audit Resources and Timing**

Planning for the performance audit commenced in November 2000. Evidence collection commenced in December, with the report being finalised in November 2001.

The total cost of the audit excluding report production costs is estimated at \$125 000.

## BACKGROUND

Importance of reconciliations

The ability to relate an organisation's accounting records routinely and accurately to the cash position as represented by the bank statement is crucial. Therefore, bank account reconciliations form a fundamental control that regularly receives attention by auditors. During the course of each year's financial audit cycle, auditors routinely examine bank account reconciliations undertaken by auditees. However, the extent to which these controls are scrutinised is influenced, *inter alia* by the concept of materiality. Australian Accounting Standard AAS 5 deals with materiality, stating in paragraph 4.1.1 ('Application of Materiality') that:

Concept of materiality

'The notion of materiality influences whether an item or aggregate of items is required to be recognised, measured or disclosed in accordance with the requirements of an Australian Accounting Standard. Where an item or an aggregate of items is not material, application of the materiality notion does not mean that those items would not be recognised, measured or disclosed, but rather that the entity would not be required to recognise, measure or disclose those items in accordance with the requirements of an Australian Accounting Standard.'

It does not necessarily follow that auditees that have not fully complied with requirements governing the conduct of bank account reconciliations (namely, Acts of parliament, Treasurer's Instructions [TIs], business rules and guidelines, departmental policies and generally accepted basic accounting practices) will receive a qualified audit opinion of their annual accounts. This approach is consistent with AAS 5, where the amounts involved were not material to the outcome of the financial position of the reporting entity.

Reason audit undertaken

Nevertheless, observations made by financial auditors over a



number of annual cycles, combined with the importance of reconciliations as a fundamental internal control mechanism, led the Audit Office to conclude that a separate evaluation of this matter was justified. Accordingly, a program of regulatory and compliance audits that would focus on bank account reconciliations in all inner budget agencies was put in place. To assess the state of agencies' reconciliations we developed six criteria that are listed below with an explanation as to their purpose:

Audit criteria ...

<b>Criteria</b>	<b>Purpose</b>
1. The agency has an appropriate policy in place.	To determine whether there is adequate guidance to assist departmental staff who undertake the reconciliation.
2. Bank accounts are reconciled at the end of each month and not later than one month thereafter.	To ensure that reconciliation is regular and timely.
3. The reconciliation is performed by an independent person.	To address issues of probity and conflict of interest.
4. The reconciliation is checked by an independent person.	To provide quality assurance to the reconciliation process.
5. The reconciliation is in accordance with agency policy.	To ascertain whether staff are aware of agency requirements and adhere to them.
6. Ascertain whether cheques have been held over from previous financial year.	To investigate whether cheque payments are rolled from one year to the next.

The development of criteria to support the objective of this audit (i.e. determining the degree of compliance with TI 401) was based

on a number of references contained in legislation or other TIs. For example, section 10 of the *Financial Management and Audit Act 1990* requires the Head of an Agency:

...based on TI  
401

'to prepare and issue, within such time as the Treasurer may allow, an accounting manual in accordance with the Treasurer's Instructions.'

Further instruction is given in part 3 of TI 301(3) that states:

'... 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; 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.'

Risk management and internal control are the subject of TI 302. Paragraph (2) states that:

'In developing Accounting Manuals, Heads of Agency are to establish policies in relation to internal control which address the objectives of, *inter alia*:

- (c) safe guarding of assets;
- (f) preventing error and fraud in the financial

transactions; and

- (g) ensuring that all revenue due to the Agency is collected promptly.’

Cheques held over?

Another issue that we sought to examine was whether cheques were being drawn in one financial year and deliberately held over for presentation in the following year. This practice has a direct affect on the agency's operating result for the year, and also has impacts on the surplus or deficit of the Treasurer's Consolidated Financial Statements. Drawing cheques and holding them may also breach the *Public Account Act 1986*, section 8 of which states *inter alia*:

- (3) Every appropriation out of the Consolidated Fund for any financial year shall, subject to section 8A, lapse and cease to have any effect for any purpose at the close of that year.’

Section 8A states:

- (2) ... where there is an unexpended balance of any appropriation in a financial year, the Treasurer may direct that an amount not exceeding 3% of the total appropriation for the relevant Division in that financial year is to be transferred to an account in the Special Deposits and Trust Fund to be applied for such purposes and on such conditions as the Treasurer may approve.
- (3) Any expenditure from an account referred to in subsection (2) is to be made within the first 3 months of the following year or, with the approval of the Treasurer, before the end of that financial year.’

Bank accounts overdrawn?

We also aimed to ascertain the extent to which agencies’ bank accounts were overdrawn without the Treasurer's approval (as required by section 12 of the *Financial Management and Audit Act 1990*).

## FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### PART 1: WHOLE OF GOVERNMENT ISSUES

#### 1 GENERAL FINDINGS AGAINST THE AUDIT CRITERIA

This section of the report contains details of a generic nature that were observed at a number of agencies. Firstly, in respect of the audit criteria commonly observed findings together with recommendations are listed below:

1. *The agency has an appropriate policy in place.*

##### **Finding**

Previously  
reported in 1996

A previous audit report (*Departmental Accounting Manuals and Compliance with Procedures*), tabled in August 1996, identified widespread delays among departments in either producing or updating accounting manuals. The situation appears to still be unsatisfactory because we found that a number of agencies did not have an accounting manual, contrary to section 10 of the *Financial Management and Audit Act 1990*.

##### **RECOMMENDATION**

**Agencies should produce accounting manuals that include a policy on bank account reconciliations.**

2. *Bank accounts are reconciled at the end of each month and not later than one month thereafter.*

##### **Finding**

Reconciliations were not always performed or performed correctly. Frequently, agencies could not reconcile operating accounts back to zero. It was also of concern that reconciliations were not agreed to general ledger (or cash book) balances.

As an example of incorrect processing, at some agencies

dishonoured cheques were left as adjusting items on bank reconciliations rather than reinstating the debtors. Similarly, cases were noted of stale cheques on unpresented cheque lists with the result that bank balances were understated.

**RECOMMENDATION**

**Procedures should be put in place to ensure that compliance with TI 401 is achieved.**

**Treasury should develop a best practice template to guide agencies in the consistent preparation of bank account reconciliations.**

- 3. The reconciliation is performed by an independent person.*

**Finding**

Reconciliations were often not signed off after completion.

**RECOMMENDATION**

**The preparing officer should sign the reconciliation to indicate that the preparer and checking officer are not one and the same and that separation of duties exists.**

- 4. The reconciliation is checked by an independent person.*

**Finding**

Despite the checking process errors were encountered in reconciliations.

**RECOMMENDATION**

**Checking of reconciliations should be systematic and thorough. If checking becomes just a 'rubber stamp' an important point of control is compromised.**

- 5. The reconciliation is in accordance with agency policy.*

**Finding**

In some agencies preparing officers appeared to lack training in their duties and were not adequately supported by supervisory staff.

**RECOMMENDATION**

**Staff required to undertake bank account reconciliations should be supported through proper training and supervision.**

*6. Ascertain whether cheques have been held over from previous financial year.*

**Finding**

Instances were noted where cheques drawn in a previous financial year were held over for payment in the following year.

Also, there were cases of cancelled cheques being shown on outstanding lists thereby understating bank balances, overstating expenditure and being reimbursed by Treasury where expenditure had not been incurred.

**RECOMMENDATION**

**Agencies should comply with TI 521(1) that states:**

**‘... the Head of agency is to ensure that expenditure does not include prepayment for any goods or services which have not been provided which are not due or required to be paid ...’**

**Cancelled cheques should be processed as soon as they are cancelled.**

**2 OTHER MATTERS: OVERDRAWN DEPARTMENTAL BANK ACCOUNTS**

Section 12 of the *Financial Management and Audit Act 1990* states that:

‘An officer shall not cause any authorised deposit-taking institution account of an Agency maintained under this Division to be overdrawn, except with and subject to the approval of the Treasurer.’

accounts ...

A finding made at most agencies was that, under a strict interpretation of section 12, operating accounts (and to a lesser extent credit card accounts) were regularly overdrawn. Examples are provided by the following table.

*Table 1: Selected Overdrawn Bank Accounts*

<b>Agency</b>	<b>Proportion of working days overdrawn based on audit testing</b>	<b>Average Amount</b>	<b>Largest Amount</b>
Treasury (Finance General)	17%	\$8 626 580.41	\$94 900 619.41
DHHS	50%	\$5 886 154.91	\$23 172 538.74
DIER	26%	\$2 791 912.72	\$7 818 617.43
DPIWE	32%	\$1 154 212.15	\$3 748 130.19

... commonly encountered

Although operating accounts in the four departments shown above were regularly overdrawn by large amounts, the following agencies also had overdrawn accounts:

- Department of Education;
- Department of Justice and Industrial Relations;
- Department of Police and Public Safety; and
- Department of State Development.

One particular reason that departments cited for accounts being overdrawn was that agencies experienced delays in reimbursements for electronic fund transfer (EFT) payments. However, this did not appear to be valid and the response from Treasury (see below) rejects this assertion.

The opinion commonly encountered during the course of the audit was that since the establishment of the agreement between the State and the Westpac bank, the provisions of section 12 should be seen as applying to the totality of government accounts such that if the

sum of the agencies' over drawings did not exceed deposits controlled by Treasury then overall the State's accounts were not overdrawn. Accordingly, no agency had sought approval to operate their accounts in overdraft. From the widespread nature of these occurrences, it appeared that agencies assumed there was a *de facto*, if not *de jure*, approval by Treasury of this situation.

Expedient

Although the view held by agencies was expedient, it did appear to be at odds with the intention of the above section of the Act. Advice was sought from the Department of Treasury and Finance as to its position regarding these overdrawn operating accounts and whether action needed to be taken to issue approvals to agencies in the light of the requirements of section 12 of the *Financial Management and Audit Act 1990*.

***Treasury response:***

Under the business rules applying to cash management activities, Agencies are required to advise Treasury of the total of all payments to be made daily from their accounts, and Treasury reimburses the accounts on the next business day. [That is, agencies are required to make EFT payments for the next business day, thus allowing time for reimbursement from the Treasurer's Account.] As a result, there is generally no reason for Agency bank accounts to be overdrawn.

Reasons ...

There are however, circumstances which can contribute to individual accounts going into temporary overdraft. They include:

... timing issues

- Timing of cashflows, for example an agency sending an EFT to Westpac for same day processing, may lead to the payment being debited from the account a day before the account is reimbursed by Treasury. This can also occur where cheques are collected and banked on the same day, rather than being mailed out;

...

... lack of cash flow data ...

- Agencies not providing cashflow data to Treasury in accordance with the cash management business rules and as



a consequence, accounts are not reimbursed on the day when payments are transacted; and

... transfers between accounts at departmental level

- The timing of internal transfers between Agency accounts. With the number of accounts held by some agencies, overdraft balances may occur where internal transfers between accounts, such as the reimbursement of the credit card or salary clearing accounts, have not been undertaken.

Pooling of departmental accounts

The processes adopted in managing the Government's cash resources consist of "pooling arrangements" established with the Government's banker, Westpac. In managing the Government's cash resources, Treasury ensures that the overall balance of "pooled accounts" remains in credit. Under this process, it can mean that individual accounts in the "pool" are temporarily overdrawn. However, any overdrawing of accounts is offset by credit balances in the other accounts within the "pool". This process is supported by a "set-off" agreement between the Government and Westpac which permits individual accounts in the "pool" to be overdrawn, on the condition that the overall balance of the "pool" remains in credit. The average daily balance for the "pool" is generally in the order of \$1 million credit.

'Technical breach'

Notwithstanding the above, it is recognised that the overdrawing of individual bank accounts is in conflict with the requirements of section 12 of the *Financial Management and Audit Act 1990*, but this is more in the nature of a technical breach. It could be argued that there is an implicit authority for individual accounts to be overdrawn by reason of the "set-off" agreement between the Government and Westpac.

One of the contributing factors to overdrawing accounts is the current process of reimbursing accounts on a daily basis. You may be aware that Treasury is in the process of finalising the installation of a recently developed system for the ongoing management of the Government's cash resources. As part of the process of installing

the Public Account Cash Management System, a review of the business rules relating to cash management is to be undertaken. A move away from daily reimbursement to providing Agencies with a cash advance based on monthly or quarterly cashflow projections, would assist in eliminating this problem. Furthermore, a review of the number of accounts being used by Agencies will be conducted, with a view to reducing the number of accounts being used and this should also assist in alleviating this problem.

**RECOMMENDATION**

**Under the conditions of section 12 of the *Financial Management and Audit Act 1990*, approval should be sought from the Treasurer to authorise the overdrawing of the individual bank accounts that are pooled by Treasury under the agreement between the Government and Westpac.**

**Alternatively, an amendment to the legislation should be pursued in Parliament.**



## **PART 2: AGENCIES**

Work done  
between  
November 2000  
to October 2001

Our cycle of audit fieldwork commenced in November 2000 with the result that in some cases our examination was restricted to two sample months namely June and October 2000. For those agencies visited after June 2001, we also checked the reconciliation for that month.

Some limited follow up work was undertaken prior to the finalisation of the report to check on what remedial action had occurred in relation to findings made at agencies visited in the early part of the audit.

Where common recommendations were made to agencies, these are listed in the 'Whole of Government' section of this report (see section 1 of 'Findings, Conclusions and Recommendations')

This section of the report contains details of work done at each of the Tasmanian Government agencies.



### **3 DEPARTMENT OF EDUCATION**

We examined seven bank accounts operated by the department, viz.:

1. Expenditure account;
2. Expenditure trace Account;
3. Salaries account;
4. Salaries trace account;
5. Allport Library and Museum of Fine Arts Trust Account;
6. Sir John Morris Memorial Trust Account; and
7. T M Crisp Memorial Sporting Library Trust Account.

The June and October 2000 bank reconciliations were tested.

#### ***3.1 Does the agency have an appropriate policy in place?***

No separate  
policy

There appeared to be no separate policy dealing with bank account reconciliations.

#### ***3.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?***

Reconciliations for the above bank accounts were completed up to November 2000. All reconciliations with the exception of May were completed in accordance with TI 401. The May reconciliation was not done, but was included with the June reconciliation due to problems associated with the new version of Finance One.

#### ***3.3 Is the reconciliation performed by an independent person?***

The Accounts Officer performed all of the reconciliations reviewed but was not involved in the banking or receipting process.

**3.4 *Is the reconciliation checked by an independent person?***

The Project Officer Accounting Operations checked all of the reconciliations. This position was not involved in the reconciliation process or cash receipting and banking.

**3.5 *Is the reconciliation done in accordance with agency policy?***

Two problems concerning the expenditure account came to light that had been caused by a departure from usual departmental procedures. The first concerned a duplicated cheque that had been raised in May 1999 and the other related to the treatment of stale cheques (i.e. not presented within 15 months).

A more substantial problem related to an amount of \$419 058.31 that was unclaimed from Treasury and dated back to 1993-94. This amount had been in dispute since then but subsequent to the audit the matter has been resolved.

**3.6 *Confirm whether cheques have been held over from the previous financial year.***

There were no cheques held over from the previous financial year.

**3.7 *Other matters***

A number of issues were identified and reported in detail to management in the department's finance area. Subsequently, a meeting was held between Audit and finance staff at which these matters were satisfactorily resolved. A summary of the more important issues follows.

***Expenditure trace account***

Trace account  
not reconciled to

As a suspense account used to process amounts rejected in the expenditure account, the trace account should be reconcilable to a

zero zero balance. Procedures to ensure this had not been applied in recent times.

***Sir John Morris Memorial Trust Account***

Communication There appeared to be no mechanism for Board approvals to vary problem investments to be forwarded to Finance and Procurement Services. Without this advice Trustee Fund Summary reports cannot be updated to reflect the current situation of investments.

**3.8 Conclusion**

Issues raised in the department's report were discussed with finance staff and appropriate corrective actions initiated.





## 4 DEPARTMENT OF HEALTH AND HUMAN SERVICES

At the Department of Health and Human Services we examined bank accounts at head office as well as in the Housing Division.

### 4.1 HOUSING DIVISION

#### *4.1.1 Does the agency have an appropriate policy in place?*

Lack of detailed guidelines

The department has a manual that dates from the former Department of Community and Health Services. Section 3.13 deals specifically with bank account reconciliations and states the following:

‘...A reconciliation of each bank account is to be prepared monthly within 15 days of the receipt of the bank statement or the end of the month whichever is first.’

This is in conformity with section 10 of the *Financial Management and Audit Act 1990*, however, there are no specific instructions or guidelines in relation to the format and content of the reconciliation.

#### *4.1.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?*

Reconciliations not up to date

Reconciliations had been completed up to June 2000 but none were completed since then.

#### *4.1.3 Is the reconciliation performed by an independent person?*

There appeared to be adequate separation of duties in that the reconciling officer’s position was not involved in the banking or receipting process.

#### *4.1.4 Is the reconciliation checked by an independent person?*

Ineffective checking process

Reconciliations were signed off by an independent person (namely the acting Manager Business Support Unit). Despite the checking

checking process process, numerous errors were encountered.

***4.1.5 Is the reconciliation done in accordance with agency policy?***

\$5.2 million error  
in reconciliation  
went undetected

Reconciliations had not been carried out in accordance with agency policy. The cashbook was 'inherited' from Head Office and had been processed on a spreadsheet. Seemingly, the incumbent had problems processing daily collections in this format, a situation that was compounded by the lack of supervision of the cashbook and bank reconciliations by senior staff. Both reconciliations as at 30 June 2000 presented for audit were incorrect. Due to duplicated errors on the spreadsheet the cashbook was out of balance by an amount of \$5 224 587.48. Despite this, the 'reconciliation' was checked and signed as correct. There did not appear to be any other reconciliations prepared for 1999-2000.

***4.1.6 Confirm whether cheques have been held over from the previous financial year.***

There was no evidence of cheques being held over from the previous financial year.

**4.2 HEAD OFFICE**

In our audit we examined twelve bank accounts operated by the department's head office, namely:

1. Expenditure account;
2. Collections account;
3. Credit card settlement account;
4. Expenditure trace account;
5. Royal Hobart Hospital operating account;
6. Launceston General Hospital operating account;

7. North West Regional Hospital operating account;
8. Royal Derwent Hospital Patients Trust Account;
9. Tasmanian Ambulance Service advance account;
10. Payroll advance account;
11. Burnie payroll advance account; and
12. Launceston offline account.

The June and October 2000 Bank reconciliations or those reconciliations nearest those dates were tested where they had been performed.

**4.2.1 Does the agency have an appropriate policy in place?**

Policy in place  
but staff unaware

The department does have a policy on bank account reconciliations but staff performing reconciliations did not appear to be aware of the requirements of that policy, TI 401, or relevant legislation. More often, they relied on direction by senior staff in relation to these matters. Whilst the major accounts (expenditure and collections accounts) were not being reconciled strictly in accordance with TI 401 or agency policy, it is acknowledged that the position has improved since the time that audit fieldwork commenced.

**4.2.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?**

Improvement  
noted

Reconciliations of the expenditure and collections accounts did not meet this criterion. However, as noted in section 4.2.1 the department was making progress towards improving the situation.

***Payroll accounts***

***Launceston payroll offline***

Failure to  
reconcile

The reconciliation for this account for June 2000 was reviewed and found to be unsatisfactory.

It was noted that this bank account was still operating and the last reconciliation that was performed was on 29 November 1999. There were transactions dating from July 1999 that had not been processed.

An amount of \$132 550.73 was noted on the reconciliation that was apparently advanced by the Hobart payroll account (no date noted) to supplement the original advance of \$70 000. However, the reconciliation was not made to the revised total amount of \$202 550.73 (i.e. \$45 000 + \$132 550.73). Adjustments on this reconciliation should have been processed and the account closed.

#### ***North West Regional Hospital payroll account***

This account was reviewed and also found to be unsatisfactory.

Failure to reconcile

This account is also to be closed, the last reconciliation sighted was dated June 2000. Many adjusting transactions dating from May 1999 were still being shown on the reconciliation. They should have been dealt with within one or two pay periods of the particular transaction and the account closed.

#### ***Payroll advance account***

This bank account processes salaries of approximately \$230 million per annum. Regular reconciliation, oversight and control are considered essential to prevent and detect unauthorised transactions and to ensure that the account is not exposed to fraud and manipulation.

However, our audit of the reconciliation found it to be unsatisfactory.

Not completed monthly

- The reconciliation was regularly performed each pay period until 15 December 1999 but not completed again until June 2000.

- Failure to reconcile
- The June 2000 reconciliation was to an advance of \$100 000. However, this figure was incorrect because part of that sum was transferred elsewhere within the agency and subsequently a larger amount was used to compensate for that transfer and increase the original advance. Accordingly, the reconciliation should have been at least \$167 449.27 (i.e.  $\$100\,000 + \$200\,000 - \$132\,550.73 = \$167\,449.27$ ).
- Lack of adjusting entries
- There were many adjusting entries dating from October 1999 that should have been processed within one or two pays periods of the transaction but these were still outstanding on the reconciliation as at 30 June 2000.
- Overdrawn balances
- Overdrawn balances on the bank statement were also noted, instances are as follows:

<b>Date</b>	<b>Amount</b>
3 August 2000	(\$3 509.50)
11 September 2000	(\$275 182.98)
5 March 2000	(\$339 991.70)
30 March 2001	(\$392 062.79)

Given that the advance on this account was actually \$167 449.27 and that the overdraft can approach \$400 000, the advance to this account appears to be inadequate. With salary prepayments of approximately \$500 000 between each pay cycle, it would appear that a much larger advance would need to be in place to prevent the account from going into overdraft.

As a result of a meeting between the Audit Office and the department's Manager Finance and Facilities and Director of Human Resource Services remedial action was initiated and is continuing at the end of the audit. Similarly, both the Launceston

and North West accounts were also being examined and will be corrected before being closed.

#### **RECOMMENDATIONS**

**Adjustments to the bank account should be processed in a timely manner.**

**The advance should be increased to such a level that the bank account is not overdrawn.**

#### ***4.2.3 Is the reconciliation performed by an independent person?***

Control  
weakened

With one exception, the officers involved in the reconciliation process were not involved with receipting or banking and were deemed to be 'independent'. It was noted however, that the staff member processing the expenditure account reconciliation during the audit was involved in the cashiering process. It was also understood that the same staff member was opening the mail, processing cash and cheques. Segregation of duties is an important control that needs to be maintained.

#### ***4.2.4 Is the reconciliation checked by an independent person?***

An independent officer checked the reconciliations.

#### ***4.2.5 Is the reconciliation done in accordance with agency policy?***

As noted in section 4.2.1, both major reconciliations will now be done in accordance with agency policy.

#### ***4.2.6 Confirm whether cheques have been held over from the previous financial year.***

Cancelled  
cheques leading  
to overstated  
expenditure

As noted above, there were cancelled cheques (to the value of approximately \$700 000) shown as unpresented on the Finance One bank reconciliation module. Subsequent discussions confirmed that this was due to problems with Finance One. It apparently malfunctioned between April 2000 and June 2001 and would have

overstated the agency's expenditure and also misstated the bank balance by that amount.

It is considered that this (14 months) was an excessive period to address the problem. Also, it would appear that these amounts may have been reimbursed by Treasury and therefore may have been over claimed.

***Cheques processed at the bank but not in the cashbook***

Cheques totalling \$35 783.80 were shown as debited on the bank statement and highlighted on the 3 November 2000 expenditure reconciliation as cheques not matched. Subsequent enquiry established that there were 156 cheques dating from 30 June 2000 that had not been entered into the cashbook and/or general ledger due to the details not being advised by outlying centres that were drawing manual cheques on this account.

Insufficient  
control over  
manual cheques

Advice was received that these details were not being advised due to an extended staff absence at a regional hospital. With a limit of \$200 (unless otherwise approved) on all manual cheques, the effect of these amounts not being entered should not be material. However, it was considered that the time lag was too great for effective internal control and that this could lead to manipulation of the agency's expenditure. The possibility exists that a large amount could be negotiated on a manually drawn cheque and processed through the expenditure account before it would come to the attention of the finance section.

**RECOMMENDATION**

**All entries from outlying areas should be entered into the general ledger as soon as possible.**

***4.2.7 Conclusion***

Due to the significance of the problems raised in the department's payroll bank account reconciliation discussions were held between



the Audit Office and the department. As a result, appropriate resources were assigned to identify and adjust the numerous items on the reconciliation. This has included action to close the Launceston and North West accounts that may include the write-off of a small number of items. Resolution of these matters should make it easier to do future bank account reconciliations.

***Management response: Refer to section 13.1.2.***

## **5 DEPARTMENT OF INFRASTRUCTURE, ENERGY AND RESOURCES**

Four bank accounts operated by the department were examined. These were:

1. Expenditure account;
2. Collections account;
3. Payroll settlement account; and
4. Outsourcing account.

The June and October 2000 Bank reconciliations were tested for the collections, payroll settlement and outsourcing accounts, with the June 2000 and December 2000 reconciliations being tested for the expenditure account.

### ***5.1 Does the agency have an appropriate policy in place?***

The Department does have appropriate policies in place. Discussions with the senior financial staff indicated that these policies were being updated to recognise the new Finance One accounting system and would be available on the department's Intranet. It will include the new reconciliation procedures in the Finance One module.

### ***5.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?***

Reconciliations for all the above bank accounts except the expenditure account were completed up to June 2001 and had been completed within the one month prescribed period as required by TI 401. The expenditure account had not been reconciled monthly due to inherent problems with the bank reconciliation module in the previous Rainbow finance system. However, it was completed at

June 2001.

**5.3 *Is the reconciliation performed by an independent person?***

Staff involved in the reconciliation process were not involved with receipting or banking.

**5.4 *Is the reconciliation checked by an independent person?***

Signatures  
lacking

Three of the four reconciliations were checked although none was signed by the preparer. The expenditure account had not been signed by the preparer and checked by a senior finance officer. This matter was raised with senior finance staff who agreed that for the reconciliation process to be accepted as a valid control, it needed to be signed by the preparer and checked by a qualified senior officer.

**5.5 *Is the reconciliation done in accordance with agency policy?***

With the implementation of the Finance One system, all reconciliations will be processed in accordance with the reviewed agency policy on bank reconciliations.

**5.6 *Confirm whether cheques have been held over from the previous financial year.***

There were no cheques noted that were held over from the previous financial year

**5.7 *Other Matters***

There were other minor procedural matters discussed with senior finance staff including the use of an overdraft facility.

**5.8 *Conclusion***

High standard of  
compliance

The department's bank reconciliation process revealed a thorough approach by staff that was reflected in the high standard of

compliance.

***Management response:***

In relation to the regular reconciliation of the General Fund (expenditure) Account the software amendments to correct the Finance One Reconciliation Module have been received and loaded. The Department continues to prefer to commit its resources to reconciling the General Fund Account through Finance One rather than develop a manual process which will be replaced by the Finance One module when it is successfully operating.

In respect of the signing of reconciliations, the Department considered that the existence of the reconciliation was evidence of the work of the preparer and the supervisor signed the reconciliation to indicate that it had been independently reviewed. The Department has since moved to both the preparer and the supervisor signing the monthly reconciliation.

The Department is pleased that the significant effort and importance it has given to these bank reconciliations is recognised by such a positive report.



## 6 DEPARTMENT OF JUSTICE AND INDUSTRIAL RELATIONS

In our audit we examined the reconciliations for June and October 2000 and June 2001 for thirteen bank accounts operated by the department. These were:

1. Electoral Office advance account;
2. Supreme Court advance account;
3. Supreme Court Trust Account;
4. Supreme Court Legal Profession Act Court Fund;
5. Supreme Court Legal Profession Act Court Fund No. 2;
6. Supreme Court Legal Profession Act Court Fund No. 3;
7. Sheriff's account;
8. Crown Law Trust Account;
9. Magistrates court account (Fines Enforcement Unit);
10. Risdon Prison advance account;
11. Risdon Prison private monies account;
12. Agency operating account; and
13. Credit card settlement account.

### ***6.1 Does the agency have an appropriate policy in place?***

Policy in place  
but staff unaware

Some staff members processing bank reconciliations were unaware that a policy relating to this process was in place. As a result of this, several reconciliations did not comply with departmental policy.

**6.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?**

***Supreme Court: Legal Profession Act Court Funds***

Due to the small balance and low number of transactions in these accounts they were only reconciled as at June 2000 and June 2001. A formal exemption from agency policy and TI 401 may be required if management deems it necessary to only reconcile these accounts annually.

***Magistrates Court account: June 2000 reconciliation***

Reconciliations  
late and unsigned

The reconciliation for this account was not signed or checked in accordance with departmental policy. The June 2000 reconciliation was not processed until November 2000 instead of within 15 days of the end of the month (as per departmental policy). As well, problems were noted with stale cheques totalling almost \$10 000 that were not written off until June 2001 and discrepancies in excess of \$50 000 (\$47 000 of which was prior to September 1999) noted as an adjusting item.

***Magistrates Court account: June 2001 reconciliation***

Failure  
to  
reconcile

Reconciliations of this bank account were not done from September 2000 to December 2000. In the period from January 2001 to May 2001, reconciliations were attempted but unrepresented cheque listings were incomplete and bank fees were not included. The June 2001 reconciliation was satisfactorily completed but not until 23 August, a delay that was in breach of agency policy and TI 401.

It is acknowledged, however, that the department has taken initiatives and the June 2001 reconciliation indicated an improvement in the standard of work done. In particular, most of the unexplained discrepancy from June 2001 (approximately \$50 000) had been

identified and corrected.

**RECOMMENDATION**

**Adjustments apparent in the reconciliation should be corrected. A clear line of communication should be established with the Finance area and the Fines Enforcement Unit to ensure that adjusting items are quickly identified and actioned.**

***Risdon Prison advance account: June 2000 and October 2000***

Account not  
reconciled to zero

A true reconciliation of the advance account, which as a clearing account should be reconcilable to zero, was not being performed. Instead, there was a cash payments book recording payments made from the bank account but it did not record bank charges or direct debits to the bank account.

***Risdon Prison advance account: June 2001***

Unre-imbursed  
expenditure

Amounts in excess of \$7 000 on this reconciliation had not been reimbursed from the department's operating account. As mentioned previously, a true reconciliation was not being performed.

***Risdon Prison Private Monies: June and October 2000***

Incomplete  
reconciliation

There was no cashbook reconciliation, only a reconciliation to the bank statement balance after adjustment. As well, no cash receipts book was maintained.

**RECOMMENDATIONS**

**Formal cash receipts and payments books should be implemented to establish a true cashbook balance. Direct debits and bank charges should be recorded in the cash payments book. Expenditure should be recouped from the department's operating account expeditiously.**



***Agency operating account: June 2000***

Late  
reconciliation

An attempt was made at reconciliation of this account and was finalised on 4 August 2000, which was outside the time required by agency policy. The balance of the account was not disclosed in the agency's financial statement as at 30 June 2000 and did not agree with the general ledger.

***Agency operating account: June 2001***

Reconciliations  
not done in  
2000-01

It would appear that the June 2001 reconciliation was the only reconciliation performed during the 2000-2001.

**6.3 *Is the reconciliation performed by an independent person?***

Duties not  
segregated

In some instances there was insufficient segregation of duties with staff involved in banking, receipting, posting to cashbooks and/or general ledgers as well as performing the bank account reconciliation. Where this was noted it was brought to the attention of senior officers.

***Electoral Office advance account***

Reconciliation not  
signed or  
checked

The reconciliations were not being signed and dated by the processor and checked by a senior finance officer.

***Supreme Court***

Reconciliation not  
signed or  
checked

The advance and trust accounts were not signed, dated or checked in compliance with agency policy.

**6.4 *Is the reconciliation checked by an independent person?***

As noted above in section 6.3, instances were observed where this check was not performed in accordance with agency policy.

**6.5 *Is the reconciliation done in accordance with agency policy?***

Policy in place  
but staff unaware

As stated in section 6.1, there are staff members unaware of departmental policy.

***Risdon Prison advance account: June 2001***

Fraud: control  
weakness

Three cheques, with a combined value of \$834.00, shown as adjusting items on the reconciliation had been fraudulently manipulated. It appeared that they had been paid to inmates on their discharge from prison. Examination of other cheques drawn on this account highlighted some control weaknesses that may have contributed to the above cheques being forged, mainly:

- All were hand written;
- Although they were crossed with 'Not Negotiable' stamped across the face the cheques were made out to 'Bearer' which is not the most secure form of protection;
- One cheque was originally made out for \$0.07 but was fraudulently altered to \$700.07. Consideration could be given to paying cash from a cash float for this purpose for all amounts of say under \$10.00.

**RECOMMENDATION**

**All cheques used to pay the balance of inmates' earnings on their release should be crossed (including the notation 'Not Negotiable' between the crossing). Also, the word 'bearer' should be struck out making them 'order' cheques. This would strengthen the department's subsequent recovery process against any bank that had cashed such cheques.**

**Payments of less than \$10 should be made from a cash float.**

***Risdon Prison private monies: June and October 2000***

Regulation 14 of the *Corrections Regulations 1998* states that:

‘A person authorised by the Director is to hold in custody the property of a prisoner or detainee until the prisoner or detainee is released or transferred to another prison’

while regulation 20 goes on to state:

‘The Director, at the request of a prisoner or detainee, may authorise on behalf of the prisoner or detainee expenditure of money belonging to the prisoner or detainee for the purpose and in the manner specified in the authorisation.’

Need for cash-backing?

For the purposes of the above regulations money is defined as property. It appears that the private monies held by the Director is in trust. Consequently, it may be necessary to investigate the matter with Treasury to see whether a cash-backed trust account needs to be established.

**RECOMMENDATION**

**A legal opinion should be sought as to whether ‘Private Monies’ should be held in a trust account.**

**6.6 *Confirm whether cheques have been held over from the previous financial year.***

There were no cheques noted held over from the previous financial year.

**6.7 *Conclusion***

Although significant improvements have been noted in the department further work remains to be done.

## **7 DEPARTMENT OF PREMIER AND CABINET**

In our audit we examined four bank accounts operated by the department (DPAC). These were:

1. Collections;
2. Expenditure;
3. Salaries and wages; and
4. Operating account for the Telecommunications Management Division (TMD).

The TMD account is separately managed by that division while the other three accounts are controlled by DPAC's finance area.

Bank reconciliations for June and October 2000 were tested for each of the above bank accounts. TMD was reviewed later in the audit cycle and the June 2001 reconciliation was therefore included as part of our program.

### ***7.1 Does the agency have an appropriate policy in place?***

At the time of our audit, the department stated that there was no separate policy dealing with bank account reconciliations. However, subsequent advice indicated that bank account reconciliations were mentioned in the accounting manual although in need of revision. Action is under way to produce updated procedures that will be available on DPAC's Intranet.

### ***7.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?***

Reconciliations  
not performed

Reconciliations for the collections and expenditure accounts were completed up to 30 June 2000. However, DPAC was used to trial a Windows-based version of Finance One. As a result, various processing difficulties arose that led to reconciliations for the

expenditure and collections accounts not being completed between July, and October 2000. Even though the adjusting items were identified quickly they were not processed in a timely manner. A better solution would have been to perform interim manual reconciliations.

The reconciliation for the wages and salaries account for June 2000 was examined and found to be correct as was October. It was further noted that the reconciliation for November had been completed, which was well inside the stated period for completion.

The TMD operating account was reconciled at the end of each month and usually completed within the first week of the ensuing month.

The following matters were examined and discussed with finance staff:

#### *Collections account*

Delays in matching deposits

'Deposit of receipts' totalling almost \$500 000 were shown on the June reconciliation but these were actually 'unmatched deposits'. It was unclear why they are unmatched and what they are 'unmatched' to. Further examination of this amount revealed that they were bank deposits dating from 5 May 2000 that were unmatched to the details in Finance One.

#### **RECOMMENDATION**

**The preparing officer should examine reports produced by the reconciliation module of Finance One to establish whether dishonoured cheques are included in the category of 'deposit of receipts'. These dishonoured cheques should be processed through the debtor's system as soon as they are identified.**

**Unmatched deposits should be reconciled to the details in Finance One and cleared as soon as they are identified.**

***Expenditure account***

Stale cheques  
not handled  
properly

There were 31 stale cheques with a total value of nearly \$10 000 included on this account at 30 June 2000.

Three cheques with a combined value of \$12 000 were drawn between December 1999 and March 2000 in favour of the Secretary DPAC but had not been banked at November 2000.

Cheques drawn  
but held

Five cheques related to grant payments, outstanding as at June 2000 and with a total value of \$21 000, were still outstanding at 29 November 2000.

**RECOMMENDATION**

**Where cheques drawn to government departments remain un-presented after one month, prompt follow up action should be taken.**

***7.3 Is the reconciliation performed by an independent person?***

Lack of  
signatures

Staff involved in the bank account reconciliation were not involved in the banking/receipting process. However, reconciliations were not always signed off after completion.

***7.4 Is the reconciliation checked by an independent person?***

Some accounts  
not checked

The salaries and wages reconciliation was checked by an independent officer as was TMD's operating account reconciliation. The expenditure and collection accounts were not signed and dated by the checking officer.

***7.5 Is the reconciliation done in accordance with agency policy?***

As referred to in section 7.1 there was a departmental policy, however, the requirements of TI 401 were not being fully met.

**7.6 Confirm whether cheques have been held over from the previous financial year.**

Cheques held  
over

As mentioned in section 7.2, five cheques from the previous financial year totalling \$21 000 were still unpresented at 29 November 2000.

**7.7 Conclusion**

The introduction of an updated version of Finance One did disrupt the cycle of bank account reconciliations. After delays, it appeared that the department was taking action to resolve these issues.

The standard of the TMD reconciliation was impressive.

## **8 DEPARTMENT OF PRIMARY INDUSTRY, WATER AND ENVIRONMENT**

At the Department of Primary Industry, Water and Environment (DPIWE) we examined eight bank accounts, these were:

1. Expenditure account;
2. Collections account (Westpac);
3. Collections account (Commonwealth Bank of Australia);
4. Clearing account;
5. Payroll account;
6. Payroll trace account;
7. Inland Fisheries operating account; and
8. Rivers and Waters Supply Commission account.

The June and October 2000 bank reconciliations were tested.

### ***8.1 Does the agency have an appropriate policy in place?***

No policy

Discussions with the Financial Analyst indicated that a policy manual is currently being prepared and will be available on the department's Intranet. It will include procedures, TIs etc. relating to bank reconciliations.

### ***8.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?***

Reconciliations for all the above bank accounts were completed up to May 2001 and had been completed within the one month prescribed period as required by TI 401.

### ***8.3 Is the reconciliation performed by an independent person?***

The three officers involved in the reconciliation process were not



involved with receipting or banking.

**8.4 *Is the reconciliation checked by an independent person?***

Reconciliations  
not checked

None of the reconciliations examined had been checked. This matter was raised with the Financial Analyst who agreed that for the reconciliation process to be accepted as a valid control, it needed to be signed by the preparer and checked by a qualified senior officer.

**8.5 *Is the reconciliation done in accordance with agency policy?***

As stated in section 8.1, a policy is currently being prepared that will address the issues raised in relation to bank reconciliations.

**8.6 *Confirm whether cheques have been held over from the previous financial year.***

There were several cheques held over from the previous financial year. Satisfactory explanations were provided and controls put in place to identify any future cheques drawn that remain unrepresented for lengthy periods after the end of the financial year.

**8.7 *Other Matters***

There were other minor procedural matters discussed with the manager of DPIWE's Finance Branch. All of these matters were satisfactorily resolved.

**8.8 *Conclusion***

Thorough  
standards

The department's bank reconciliation process reflected a thorough standard of compliance.

## 9 DEPARTMENT OF POLICE AND PUBLIC SAFETY

In our audit at the Department of Police and Public Safety (DPPS) we examined eight bank accounts operated by the department. These were:

1. Expenditure account;
2. Expenditure trace account;
3. Salaries account;
4. Salaries trace account;
5. Collections account;
6. Suspense account;
7. Credit card clearing account; and
8. Firearms account.

The June and October 2000 bank reconciliations were tested.

### ***9.1 Does the agency have an appropriate policy in place?***

No separate  
policy

The department's accounting manual was examined and there appeared to be no separate policy or reference to TIs dealing with bank account reconciliations.

### ***9.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?***

Reconciliations  
not completed  
regularly

TI 401 requires bank accounts to be completed on a timely basis, and at least monthly. We noted that reconciliations for all bank accounts were completed up to June 2000. However, reconciliations for the following bank accounts have not been completed regularly since that time:

- Expenditure account (not reconciled past June 2000);
- Expenditure trace account (reconciled to end of December on 5 January 2001);
- Suspense account (reconciled to end of December on 5 January 2001);
- Credit card clearing account (reconciled to end of December on 5 January 2001); and
- Firearms account (not reconciled past June 2000).

**RECOMMENDATION**

**Reconciliations should be performed in accordance with TI 401, but where it is considered that some reconciliations do not need to be performed monthly an exemption be sought from Treasury.**

***Expenditure account - June 2000 reconciliation***

## Substantial errors

This account has not balanced since October 1998 and in the intervening period several errors that sometimes involved substantial sums have crept in. Some had arisen as a result of the closure of the Hobart branch of the Reserve Bank of Australia (RBA) and the subsequent transfer of the department's banking to Westpac (at which time the RBA account had not been completely reconciled). Others were the result of transactions incorrectly processed in Finance One or mixed between the salaries or firearms accounts. A detailed paper was prepared for discussion with the Finance Manager. As a result of the subsequent meeting, actions were put in place to finalise the reconciliation of the RBA account as well as to resolve the other shortcomings identified during the audit.

***Salaries trace account***

Bank fees not re-imbursed

The carried forward balance of \$20 832.27 overdrawn in the cashbook was understated due to bank fees not being reimbursed since the 1998-99 financial year. The expenditure for June 2000 was also understated because bank fees for that month were also not included in the cashbook. A similar situation was noted on the October 2000 reconciliation.

***Expenditure trace account***

Error in reconciliation

The only reconciliation performed during 2000-2001 was for the six months ending 31 December 2000. On that reconciliation it was noted that receipts and payments were understated by \$3 777.17, an error caused by totals from the previous reconciliation (June 2000) inadvertently being carried forward on the spreadsheet used for the purpose.

**9.3 *Is the reconciliation performed by an independent person?***

The Assistant Manager, Accounting Operations reconciles all bank accounts, apart from the salaries and expenditure accounts, and is not involved in the receipting or banking processes.

**9.4 *Is the reconciliation checked by an independent person?***

All June 2000 reconciliations other than the expenditure account bore evidence of checking by an independent person.

**9.5 *Is the reconciliation done in accordance with agency policy?***

Deficiencies in policy

As stated in section 9.1, the accounting manual covers only the reconciliation process in Finance One. It does not address TIs, Treasury Business Rules or the frequency and timing of reconciliations.

**9.6** *Confirm whether cheques have been held over from the previous financial year.*

There were no cheques held over from the previous financial year.

**9.7** *Conclusion*

The above matters were reported to the department in detail and discussed at a later meeting. In responding to the issues raised, the department acknowledged the shortcomings identified. Corrections were made as necessary and assurances given that remedial action would be put in place to address the problems identified.

## 10 DEPARTMENT OF STATE DEVELOPMENT

At the Department of State Development (DSD) we examined four bank accounts, namely:

1. Operating account;
2. Retail account; and
3. Minor clearing accounts (2).

The October 2000 and June 2001 bank reconciliations were tested for the abovementioned accounts.

### *10.1 Does the agency have an appropriate policy in place?*

No separate  
policy

The Chief Finance Officer indicated that at the time of the audit there was no separate policy covering bank reconciliations. The department was revising its policy platform and a policy on bank reconciliations will be produced as part of that process.

### *10.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?*

Substantial  
improvement

Previously, the Audit Office had advised that DSD's bank reconciliations were not being completed regularly throughout the 1999 - 2000 financial year. However, in the 2000 - 2001 financial year bank reconciliations were performed regularly in conformity with TI 401.

### *Retail account*

Unnecessarily  
complex  
reconciliation

It was noted that, although the basic bank reconciliation was straightforward, the reconciliation process for the Tourism retail account was complex and time consuming. This created a risk that the reconciliation could lapse in the future because of the level of resources devoted to it. It was suggested that the process be reviewed

to determine if all components of the current process were necessary and whether it could be streamlined.

***10.3 Is the reconciliation performed by an independent person?***

The officers involved in the reconciliation process were not involved with receipting or banking.

***10.4 Is the reconciliation checked by an independent person?***

The audited reconciliations had been checked by an independent person.

***10.5 Is the reconciliation done in accordance with agency policy?***

While no agency policy is current, the reconciliations were performed to a high standard.

***10.6 Confirm whether cheques have been held over from the previous financial year.***

The department had been criticised over this matter previously (*Report of the Auditor-General: The Public Account 1999 – 2000*), however there were no cheques noted that were held over from 2000 - 2001 financial year.

***10.7 Conclusion***

High standard

It was pleasing to note a high standard of compliance at DSD and improvements in the department's bank reconciliation process.

## 11 DEPARTMENT OF TREASURY AND FINANCE

At the Department of Treasury and Finance we examined bank accounts operated by three divisions, they were:

1. Corporate Support;
  - Operating account
  - Salaries and wages account; and
  - Credit card account.
2. Finance General;
  - Treasurer's account; and
  - Finance General Account.
3. Revenue, Gaming and Licensing;
  - Clearing account;
  - Suspense account;
  - Credit card account;
  - EFT clearing account; and
  - Credit note suspense account.

All bank reconciliations had been completed for June and October 2000 and June 2001 in accordance with TI 401

### ***11.1 Does the agency have an appropriate policy in place?***

The policy presented to audit by Corporate Support appeared to need updating and be made more specific. For example, it not only referred to TI 401 which is current, but also TI 601 and TI 612 that have been revoked. Discussions with financial staff indicated that these policies were being updated.

Finance General had a separate policy that was more aligned to the



requirements of TI 401. It also addressed the broader requirements of division of duties, un-presented cheques and procedures that were required to correctly implement the module in Finance One. With minor modifications, this document would be suitable as a departmental policy.

***11.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?***

There were some instances of non-compliance by Finance General, mainly due to problems associated with the installation of the upgraded Finance One system. As the system is now functioning correctly, staff did not anticipate a similar recurrence.

***11.3 Is the reconciliation performed by an independent person?***

In all instances, reconciliations were performed by independent persons.

***11.4 Is the reconciliation checked by an independent person?***

Failure to date,  
sign and check

Corporate Support had not signed, checked or dated the June 2000 operating account or the June and October 2000 reconciliation for the salaries and wages account. The June 2001 salaries and wages account reconciliation was not checked. The credit note suspense account maintained by Revenue, Gaming and Licensing was not signed, dated or checked on any of the three reconciliations checked. Dates were not present on any of the June reconciliations presented for audit.

If the reconciliation process is to be a valid control, it needs to be signed and dated by the preparer and checked by a senior qualified officer. Undertakings have been given by officers in all divisions to address these matters.

**11.5 Is the reconciliation done in accordance with agency policy.**

As stated in section 11.1, the written policies differed within the department. Whilst staff were generally complying with the intent of TI 401, Treasury policy may need updating as outlined above, and importantly, all staff should be made aware of a common agency policy.

**11.6 Confirm whether cheques have been held over from the previous financial year.**

None noted during the audit examination.

**11.7 Conclusion**

High standard

The standard of bank reconciliations and compliance with TI 401 within the department was very good and staff should be commended.

**Management response:**

- 11.1 Treasury agrees and the bank reconciliation policy is currently being updated to ensure continued compliance with TI 401.
- 11.2 Treasury agrees, no further comment required.
- 11.3 Treasury agrees, no further comment required.
- 11.4 Treasury agrees with the comments and will ensure that all reconciliations include evidence of being checked by senior qualified officers.
- 11.5 As mentioned in 11.1 above, the bank reconciliation policy is currently being updated to ensure continued compliance with TI 401. All staff involved in bank account reconciliations will be made aware of the policy and their individual responsibilities.

11.6 No comment required.

## 12 EXECUTIVE AND LEGISLATURE

### 12.1 OFFICE OF THE GOVERNOR

In our audit we examined the collections bank account operated in respect of the Office of the Governor. We aimed to review the June and October 2000 bank reconciliations.

Bank reconciliations had been completed up to 30 June 2000 by the Department of Premier and Cabinet (DPAC), thereafter the Office of the Governor was responsible for control of its own collections account. Only one reconciliation had been completed as at 8 December 2000. The reason stated for non-compliance with TI 401 was that the new Windows-based version of Finance One operated by DPAC was not able to produce cheques. Instead, bank cheques were used and departmental cheques subsequently issued in Finance One to equate with the bank cheques. The Finance One module did not become operative until late November.

#### *12.1.1 Does the agency have an appropriate policy in place?*

No separate  
policy

There was no separate policy dealing with bank account reconciliations.

#### *12.1.2 Are bank accounts reconciled at the end of each month and not later than one month after the end of each month?*

Reconciliation for the collections bank account was completed up to 8 December 2000. This was the only reconciliation done since control of the collections account was delegated to the Governor's staff.

#### *12.1.3 Is the reconciliation performed by an independent person?*

Reconciliation not  
signed

The Executive Officer performed the collections account reconciliation. The clerk or chauffeur usually banked the small amount of cash and cheques collected at Government House. The

reconciliation sighted was hand written on the bank statement and was not signed or checked.

***12.1.4 Is the reconciliation checked by an independent person?***

Not checked

The collections account reconciliation was not checked by an independent officer.

***12.1.5 Is the reconciliation done in accordance with agency policy?***

As stated in section 12.1.1, there was no departmental policy and the requirements of TI 401(8) were not being met.

***12.1.6 Investigate whether cheques have been held over from the previous financial year.***

The reconciliation of this account prior to 1 July 2000 was undertaken by DPAC as mentioned above and there was no indication of cheques being held over.

***12.1.7 Conclusion***

Amounts processed through the Governor's collection account were not large or complex and regular reconciliation as per TI 401 should not be difficult. A pro-forma should be implemented and include provision for the preparing and checking officers' signatures.

***Management response:***

Since the Audit was conducted in December 2000, along with a change in staff during April 2001, the Office has developed appropriate policies and procedures for bank account reconciliations. This involves bank checks undertaken every few days from the direct bank reports with a full bank reconciliation following receipt of the formal bank statement each month. The office is developing a full accounting manual in association with the Department of Premier and Cabinet that will detail all responsible officers along with full

instructions of the process.



## 12.2 LEGISLATIVE COUNCIL

In our audit we examined the collections bank account operated by the Legislative Council. The June and October 2000 bank reconciliations were tested.

### *12.2.1 Does the agency have an appropriate policy in place?*

No separate  
policy

There was no separate policy dealing with bank account reconciliations.

### *12.2.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?*

Reconciliation for the collections bank account were completed up to October 2000.

### *12.2.3 Is the reconciliation performed by an independent person?*

The Parliamentary Officer Finance and Papers reconciled the bank account and her assistant processed and banked cash.

### *12.2.4 Is the reconciliation checked by an independent person?*

An independent officer (i.e. the Clerk of the Council) checked the collections account.

### *12.2.5 Is the reconciliation done in accordance with agency policy?*

As stated in section 12.2.1, there was no policy dealing with bank reconciliations in place at the Legislative Council.

### *12.2.6 Confirm whether cheques have been held over from the previous financial year.*

There was no indication of cheques held over from the previous



financial year.

***12.2.7 Conclusion***

The Legislative Council's bank account was satisfactorily reconciled in compliance with TI 401. Consideration should be given to producing an in-house accounting policy covering bank account reconciliations.

### **12.3 LEGISLATURE GENERAL**

The audit examined the collections and expenditure accounts operated by the Legislature-General. Bank reconciliations for June and October 2000 were tested.

Reconciliations for both accounts had been completed up to 30 June 2000 in accordance with TI 401. The reconciliations for October 2000 had also been completed.

#### ***12.3.1 Does the agency have an appropriate policy in place?***

No detailed policy

There was no detailed policy dealing with bank account reconciliations with instructions to staff only requiring them to be completed promptly.

#### ***12.3.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?***

Reconciliations for the collections and expenditure bank accounts for June 2001 were completed as at 13 July 2001. Perusal of the bank reconciliations established that they had been done monthly in accordance with TI 401.

#### ***12.3.3 Is the reconciliation performed by an independent person?***

The Manager, Parliamentary Services, who was not involved in banking, performed the reconciliations.

#### ***12.3.4 Is the reconciliation checked by an independent person?***

Reconciliations were checked by the Finance Manager, House of Assembly.

***12.3.5 Is the reconciliation done in accordance with agency policy?***

As stated in section 12.3.1, there was no in house policy in place. However, the requirements TI 401(8) were being met by the regular reconciliation of the collections account within the stipulated period.

***12.3.6 Confirm whether cheques have been held over from the previous financial year.***

During the audit examination there was no evidence of cheques held over from the previous financial year.

***12.3.7 Other matters***

Adjustments not  
being processed

Whilst the reconciliations tested were found to be correct and were being performed in the stipulated time as outlined in TI 401, there was concern at the number of adjustments and the time taken to process them. These problems appeared to be of longstanding.

***12.3.8 Conclusion***

Problems cited  
previously

Although monthly bank account reconciliations were performed, action to address delays in processing adjustments remained a concern. Despite being specifically mentioned in correspondence a year ago this matter had yet to be satisfactorily resolved.

## 12.4 HOUSE OF ASSEMBLY

In our audit we examined the collections bank account operated by the House of Assembly. Bank reconciliations for June and October 2000 were tested.

### *12.4.1 Does the agency have an appropriate policy in place?*

No separate  
policy

There was no separate policy dealing with bank account reconciliations.

### *12.4.2 Are bank accounts reconciled at the end of each month and completed not later than one month after the end of each month?*

Reconciliation for the collections bank account was completed for June 2000 and October 2000. Perusal of the bank reconciliations established that they had been done monthly in accordance with TI 401.

### *12.4.3 Is the reconciliation performed by an independent person?*

The Manager Finance performed the collections account reconciliation.

### *12.4.4 Is the reconciliation checked by an independent person?*

The Clerk of the House, who was not involved in banking, checked the reconciliation.

### *12.4.5 Is the reconciliation done in accordance with agency policy?*

As stated in section 12.4.1, there was no policy in place. However, the requirements of TI 401(8) were being met by regular reconciliation of the collections account within the stipulated period.

***12.4.6 Confirm whether cheques have been held over from the previous financial year.***

There was no indication of cheques being held over.

***12.4.7 Conclusion***

At the House of Assembly bank account reconciliations were performed regularly and to a satisfactory standard.

## **13 UPDATE OF EARLIER VISITS**

In all, 74 bank accounts were covered during the audit. Due to the amount of time needed to complete the cycle of agencies it was considered worthwhile to re-visit those departments that had been audited at the beginning of the cycle to determine whether any progress had been made in addressing those issues raised in our discussions and reports at agency level.

Brief visits were made during November 2001 as close as was practicable to the finalisation of this report. No further audit testing was undertaken at that time and the following observations were made as a result of discussions with agency staff.

### **13.1.1 Department of Health and Human Services - Housing Division**

Progress being  
made

At a meeting with the Division's Budget Officer, it was apparent that all issues raised previously had been or were being addressed.

A formal bank reconciliation, on a pro forma, was being done monthly in conformity with departmental policy and TI 401.

The cashbook module of the accounting system had been re formulated and was recording cash receipts rather than bank transactions. The design of this spreadsheet will highlight any mismatched deposits against receipts. A cursory examination showed that the layout of this spreadsheet should enable a more accurate reconciliation as well as highlighting any incorrect transactions. Thus, remedial action can be taken on a more timely basis.

It was further advised that the collections account was being swept regularly as per the undertaking given in the response to our findings.

### 13.1.2 Department of Health and Human Services - Head Office

#### *Payroll Advance account*

Our follow up at DHHS's head office was restricted to the payroll accounts to establish if the numerous adjustments had been processed. Also, we wished to ascertain whether the Northwest and Launceston bank accounts had been closed as per the undertakings given at a meeting with officers of the department on 19 July 2001.

Adjustments  
remain  
unprocessed

There had been no movement in the Northwest bank account since April 2001 at which time there was a balance of almost \$20 000. Many adjustments remained to be processed before this account could be closed and the advance of \$45 000 recovered.

The Launceston bank account had a debit balance (i.e. overdrawn) of approximately \$5 500 and had not been used since early November 1999. It, too, needed many adjustments to be processed, including some write-offs, before it could be closed. Advice from staff indicated that most of these amounts have been identified.

Reconciliations of the Hobart payroll account were being done fortnightly. Processing of overpayments against this account was continuing, with those that could not be recovered being written off subject to the appropriate authorisation.

It was of concern that this had been the position at DHHS for some six months. The same course of action was proposed at a meeting on 22 May 2001 as well as a second meeting on 19 July 2001. The importance of these reconciliations as a basic control mechanism needs to be recognised by management.

#### *Management response:*

The North West bank account is now closed, and substantial progress has been made toward reconciling the Launceston account.

### 13.2 Department of Premier And Cabinet

Progress being  
made

As a result of a meeting with finance staff it was established that the following measures had been or were being implemented:

- The accounting manual was being revised;
- A bank reconciliation pro-forma was to be introduced;
- Unpresented cheque lists were revised monthly and the issue of stale cheques had been resolved; and
- Reconciliation mismatches were being transferred to an Excel spreadsheet and matched.

It would appear that the above matters were being corrected and the standard of the bank reconciliation process should consequently improve. The need for training of staff on the Finance One reconciliation function was also stressed by the Audit Office.

### 13.3 Department of Police and Public Safety

Progress being  
made

From a meeting with officers of the department's finance area it appeared that matters previously reported were being addressed. The department was in the process of acquiring the Windows-based version of Finance One. In the interim the manager had decided to reconcile all mismatched transactions manually and write-off an amount approaching \$5 000 that could not be identified. Once this has been completed, the department anticipated that the reconciliation process would be functioning normally by February or March 2002.

### 13.4 Department of Primary Industry, Water and

#### Environment

Progress being  
made

At a recent meeting the department indicated that updated accounting policies would be available on the intranet by the end of 2001. These policies would be linked to and cross-referenced with the TIs. This



was to be followed up with training sessions on the new policies.

Problems with identifying receipts had been noted, particularly in relation to credit card slips from rangers and Commonwealth Government payments made by means of EFT. In each of these cases delays in obtaining supporting documentation led to problems on bank account reconciliations. Corrective action had been taken to address the difficulties of identifying these receipts.

## CONCLUSION

During the audit, we found that there were departments where bank account reconciliations were performed to exacting standards that reflected high levels of professionalism.

These standards were not, however, universal and areas existed where we made recommendations for improvement. Based on the evidence collected, breaches of TIs, agency guidelines and normally accepted business practice were observed. Amongst our more significant findings were the following:

- Several departments presented bank account ‘reconciliations’ for audit that were incorrect and did not reconcile;
- Frequently, there were no clear policies in place to guide and support staff performing reconciliations. Occasionally, there appeared to be a lack of supervision of this function by senior staff;
- A lack of training in the reconciliation process was evident in places, in particular where departments were using accounting software packages that included bank reconciliation modules;
- Departments were holding cheques that were drawn at year's end and not dispatching them to payees - for up to 15 months in one case;
- One department had not resolved until recently a dispute with Treasury regarding expenditure of almost \$420 000 that dated back to 1993/94;
- Some ‘reconciliations’ were not made to general ledgers or cash books but summarised the balance of the bank statement;
- One department had not reconciled a salary account with an

annual turnover of \$230 million for several years. Audit established that this account was approximately \$67 000 out of balance;

- One attempted reconciliation viewed by the Audit Office was out of balance by \$5.2 million;
- Most departments had significant overdrafts without the Treasurer's approval as required by section 12 of the *Financial Management and Audit Act 1990*; and
- Generally, there appears to be a lack of awareness of the legislative force of TIs despite the requirements of section 23 of the *Financial Management and Audit Act 1990*.

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## RECENT REPORTS

1998	SPECIAL REPORT NO. 25	THE YEAR 2000 - ARE WE READY?
1998	SPECIAL REPORT NO. 26	CAPITALISATION AND REPORTING OF ROAD ASSETS IN TASMANIA
1998	SPECIAL REPORT NO. 27	USE OF MOTOR VEHICLES IN GOVERNMENT AGENCIES
1998	SPECIAL REPORT NO. 28	PAYMENT OF ACCOUNTS IN GOVERNMENT AGENCIES
1999	SPECIAL REPORT NO. 29	COMPETITIVE TENDERING AND CONTRACTING BY GOVERNMENT DEPARTMENTS
1999	SPECIAL REPORT NO. 30	THE YEAR 2000: COMING READY OR NOT
2000	SPECIAL REPORT NO. 31	LITERACY AND NUMERACY IN TASMANIAN GOVERNMENT SCHOOLS
2000	SPECIAL REPORT NO. 32	ASSISTANCE TO INDUSTRY
2000	SPECIAL REPORT NO. 33	FOOD SAFETY
2000	SPECIAL REPORT NO. 34	PROCUREMENT IN TASMANIAN GOVERNMENT DEPARTMENTS
2001	SPECIAL REPORT NO. 35	SOFTWARE LICENSING
2001	SPECIAL REPORT NO. 36	COLLECTION OF RECEIVABLES AND LOANS IN TASMANIAN GOVERNMENT DEPARTMENTS
2001	SPECIAL REPORT NO. 37	ARCHIVES OFFICE OF TASMANIA
2001	SPECIAL REPORT NO. 38	THE IMPLEMENTATION OF GOODS AND SERVICES TAX IN GOVERNMENT AGENCIES AND LOCAL GOVERNMENT ENTITIES

Special Reports 1 to 24 are available on the Tasmanian Audit Office's web site: [www.audit.tas.gov](http://www.audit.tas.gov).