

Western Australian Auditor General's Report



Audit of Journal Entries and Property, Plant and Equipment Using Data Analytic Procedures



Report 13: July 2017

Office of the Auditor General Western Australia

7th Floor Albert Facey House
469 Wellington Street, Perth

Mail to:

Perth BC, PO Box 8489
PERTH WA 6849

T: 08 6557 7500

F: 08 6557 7600

E: info@audit.wa.gov.au

W: www.audit.wa.gov.au

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

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Audit of Journal Entries and Property, Plant
and Equipment Using Data Analytic
Procedures**

Report 13
July 2017



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

**AUDIT OF JOURNAL ENTRIES AND PROPERTY, PLANT AND EQUIPMENT USING
DATA ANALYTIC PROCEDURES**

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Our audit analysed large volumes of accounting general journal entries as well as property, plant and equipment transactions at 6 agencies to identify potential fraud, error or omissions. We found no evidence of fraud from our tests, and only a small number of errors. However, we did identify a need for improved controls at 4 of the agencies, to further reduce the risk of fraud or error.

We have also recommended that agencies consider recording more information in a format that enables management to monitor compliance with policies and delegations.

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

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

COLIN MURPHY
AUDITOR GENERAL
19 July 2017

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Audit of journal entries and property, plant and equipment using data analytic procedures

Background

At 30 June 2016, property, plant and equipment reported in the Annual Report on State Finances, totalled over \$97 billion, excluding land. Agency staff and systems process tens of millions of financial transactions relating to property, plant and equipment. They also process millions of accounting general journal entries that change revenue, asset, expenditure and other financial balances.

Agencies are required to maintain suitable policies and financial controls to ensure that these transactions are justified, approved and correctly processed. While policies, controls and well-trained staff reduce the probability of errors or fraud, they do not guarantee that transactions will not involve errors or fraud.

Our normal testing of transactions during our annual financial audits aims to identify 'material' errors. That is, an error that would cause a line item in the financial statements to be materially misstated. Our sampling of transactions supports the material accuracy of the financial statements and gives an understanding about the reliability of controls, but is not primarily focused on identifying fraud.

Data tools enable us to analyse more transactions than would be required during our annual financial audits. They also assist with the identification of fraud or errors. Our last data analytics report covered payroll and other expenditure (Report 6 – 2016).

Data analytics uses computer capability to search large volumes of transactions and data for unusual items, patterns and events that could indicate fraud. We then further investigate the items or events to identify errors or potential fraud.



What we did

Our objective was to analyse agencies' accounting general journal entries, and property, plant and equipment transactions, excluding land, to identify potential fraud, errors or omissions, and to identify weak controls that can lead to these outcomes.

We downloaded and analysed more than 12,300 journal transactions and assets from the systems of 6 agencies. Our audit techniques included the matching of data between agency systems, and the interrogation of databases.

We have not disclosed all of our audit tests in this report; however, they included identifying:

For accounting general journal entries:

- patterns of the accounts used by staff, and assessing the reasonableness of those accounts and the validity of transactions posted to seldom used accounts
- journals approved electronically outside the approver’s delegation limit
- inappropriate use of suspense accounts
- unusual debits to revenue accounts
- erroneous duplicate journal entries
- journals with inadequate or no explanation

For property, plant and equipment:

- inappropriate sale of assets to employees
- unreasonable proceeds from the sale of assets
- assets acquired using non approved procedures
- asset acquisitions approved outside delegation limits
- depreciation rates / useful life of assets inconsistent with the agency depreciation policy
- inadequate or inconsistent information in the fixed asset register.

Our testing included all journal transactions at the 6 agencies, totalling \$4 billion and assets totalling \$965 million. Some audit procedures enabled 100% testing for anomalies, while other tests involved identifying potential anomalies, which we investigated on a sample basis. We audited the agencies listed in Table 1. Journal transactions were tested for the period 1 July 2016 to 30 November 2016. Property, plant and equipment was tested for the period 1 January 2016 to 30 November 2016.

Agency	Journal transactions tested \$m	Property, plant and equipment tested \$m
Busselton Water Corporation	19	66
Department of the Attorney General	665	540
Department of Water	115	105
Mental Health Commission	1,338	14
Racing and Wagering Western Australia	895	27
Western Australian Land Authority	1,003	213

Table 1: Value of journals and property, plant and equipment audited

Conclusion

We found no evidence of fraud at any of the 6 agencies. However, we did identify minor errors and a need for improved controls in relation to property, plant and equipment at 4 agencies. Improving controls would further reduce the risk of fraud or error occurring.

What did we find?

Property, plant and equipment

From our testing of property, plant and equipment, we found a small number of errors and a need for improved related controls, though we found no significant errors or non-compliance. The following is a summary of our findings:

The useful life of property, plant and equipment recorded in the asset registers of 4 agencies was inconsistent with the depreciation policies

We summarised the depreciation rates used for each category of asset in the fixed asset register and compared them to the agency's depreciation policy. We found 559 assets at 4 of the agencies, that had useful lives or depreciation rates that were inconsistent with the rates in their depreciation policies.

Of these inconsistencies, we found 9 assets at 2 agencies were being depreciated at incorrect rates. At the Department of the Attorney General, 2 assets were over-depreciated by \$113,863. At the Western Australian Land Authority, 7 assets were under-depreciated by \$776,716.

For 550 assets, the useful life and depreciation rates set on acquisition were not in accordance with the agencies' policies. Management advised that they considered their policies outdated, and that they intended to update them.

Purchasing card used to purchase an asset

At the Department of the Attorney General we identified that an asset worth \$7,739 was purchased using a purchasing card. This is inconsistent with the Department's Purchasing Card Policy which states that 'The purchasing card must not be used to purchase assets, e.g. equipment to the value of \$5,000 or more'. Purchasing assets on a purchasing card increases the risk that the asset may not be recorded, capitalised and depreciated in accordance with the Department's policy. However, in this instance, we noted that the item was recorded in the asset register.

We were unable to use data analytics to perform our test for asset acquisitions approved outside delegation limits at the 6 agencies. This was because the agencies do not record information about the approver in their systems that would enable reliable data matching. These agencies either hold key information as manual records or do not record the information in a format that facilitates reliable data matching.

Accounting general journal entries

We found no errors or fraud when performing the abovementioned suite of tests for accounting general journal entries.

For our testing of whether journals were approved within delegated limits, we were only able to use data analytics at 2 of the 6 agencies. This was because only these 2 agencies approve journals electronically in the accounting system. The other 4 agencies do not hold this information in a format that enabled reliable data matching.

However, the results from our suite of audit tests provide further assurance that journal related fraud or errors are unlikely to have occurred at the selected agencies during the period covered by our audit.

Recommendations

1. All agencies should ensure that they maintain the integrity of their financial control environment and their key financial and operational databases by:
 - a. periodically reviewing and updating policies and procedures, and communicating these to staff
 - b. periodically reviewing the adequacy of their controls that prevent, and detect non-compliance with management approved controls
 - c. recording information in a format that enables management to monitor compliance with policies, through analysis of transactions and databases.

Use of data analytics – guidance to all agencies

2. Data analytics is a technique that all agencies can use to gain assurance about the reliability and efficiency of their operations. In particular, we recommend that agencies consider its use:
 - a. by their internal auditors, and for periodic management reporting, to provide assurance about agency functions that can be measured through interrogation of 'big data'. Such analysis would be especially warranted if the full effect of a problem is unknown
 - b. after agency restructuring and/or a new system or procedure has been implemented, or after key controls have been modified to achieve efficiencies. This testing can detect fraud or errors that may be a result of gaps in the new/revised controls.

Agency responses

Agencies in our sample generally accepted our findings and, where applicable, agreed to implement our recommendations to avoid recurrence.

Auditor General's Reports

Report number	2017 reports	Date tabled
12	Information Systems Audit Report	29 June 2017
11	Opinion on Ministerial Notification	29 June 2017
10	Timely Payment of Suppliers	21 June 2017
9	Opinion on Ministerial Notification	8 June 2017
8	Management of Medical Equipment	25 May 2017
7	Audit Results Report – Annual 2016 Financial Audits – Universities and TAFEs – Other audits completed since 1 November 2016	11 May 2017
6	Opinions on Ministerial Notifications	13 April 2017
5	Accuracy of WA Health's Activity Based Funding Data	11 April 2017
4	Controls Over Purchasing Cards	11 April 2017
3	Tender Processes and Contract Extensions	11 April 2017
2	Opinion on Ministerial Notification	6 April 2017
1	Opinion on Ministerial Notification	30 March 2017

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