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Performance Audit

## **Management of Credit Cards**

Australian National Audit Office

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of Australia 2008

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Canberra ACT  
3 June 2008

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Management of Credit Cards*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Abbreviations

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ANAO	Australian National Audit Office
APS	Australian Public Service
CEI	Chief Executive’s Instruction
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
FMIS	Financial Management Information System

# Glossary

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Agreement and acknowledgement form	An agreement and acknowledgement form lists the key responsibilities of a cardholder, and usually also refers to other guidance to be followed. Agreement and acknowledgement forms are typically signed by a cardholder when they receive a credit card.
Cardholder reconciliation	The cardholder completes a monthly reconciliation of the total expenditure from his or her credit card statement and supporting documentation (such as tax invoices or receipts).
Chief Executive's Instructions	Chief Executive's Instructions are issued by the Chief Executive of a <i>Financial Management and Accountability Act 1997</i> (FMA Act) agency under the authority of section 52 of the FMA Act and Regulation 6 of the <i>Financial Management and Accountability Regulations 1997</i> (FMA Regulations). These instructions provide operational guidance, focusing on the agency's particular needs, in order to promote the efficient, effective and ethical use of Commonwealth resources.
Certificate of Compliance	A Certificate of Compliance consolidates a range of existing agency reporting requirements, and is intended to provide a comprehensive overview of the agency's compliance with the Australian Government's financial management framework.
Commonwealth credit card	Section 60 (3) of the FMA Act defines a Commonwealth credit card to be a credit card issued to the Commonwealth to enable it to obtain cash, goods or services on credit.
Credit card administrator	An officer within the Finance unit who undertakes the central administration role related to the agency's administration of credit cards.



Credit card provider	A credit card provider is generally a bank or financial institution which the agency has contracted to facilitate credit card arrangements.
Finance unit	A unit within an agency that undertakes the central role related to the administration of credit cards. Generally there is a designated credit card administrator within this unit who, along with associated staff, is available for agency staff to contact for guidance on credit cards.
FMA Regulation 9	Regulation 9 of the FMA Regulations requires an approver to satisfy himself/herself that a particular spending proposal accords with the policies of the Commonwealth and will make efficient and effective use of public money.
FMA Regulation 12	Regulation 12 of the FMA Regulations requires that, if the approval of a proposal to spend public money is not given in writing, the approver must record the terms of the approval in a document as soon as practicable after giving the approval.
FMA Regulation 13	Regulation 13 of the FMA Regulations requires that a person must not enter into a contract, agreement or arrangement under which public money is, or may become, payable unless a spending proposal for the proposed contract, agreement or arrangement has been approved under the relevant FMA regulations.
Financial management information system (FMIS)	The FMIS is typically an integrated software application used to provide a range of financial processing, recording and reporting services to an agency. Typically, an FMIS would support such functions as general ledger, accounts payable and accounts receivable.
Independent reviewer	A person other than the cardholder (often a supervisor) who is responsible for checking and certifying a cardholder's monthly reconciliation.

Invoice or receipt	The terms invoice and receipt are used in this report to refer to the bill issued by the provider of a good or service and a written acknowledgement that a specified article or sum of money has been received.
Order 2.5 of the <i>Financial Management and Accountability Orders 2005</i>	Under FMA Order 2.5, the chief executive of an agency can authorise the holder of a Commonwealth credit card to use a Commonwealth credit card for coincidental private use, and reimburse the Commonwealth accordingly.
Section 60 of the FMA Act	Section 60 of the FMA Act specifies that cardholders must not use a Commonwealth credit card, or a Commonwealth credit card number, to obtain cash, goods or services otherwise than for the Commonwealth unless use is authorised by the Finance Minister's Orders and the Commonwealth is reimbursed in accordance with the Finance Minister's Orders.
Tax invoice	A document generally issued by the supplier. It shows the price of supply, indicating whether it includes the goods and services tax (GST). A tax invoice enables an agency to claim input tax credits on its GST return.

## **Summary and Recommendations**



# Summary

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## Introduction

1. Commonwealth credit cards<sup>1</sup> were introduced for use in Australian Government agencies in 1987 following the then Government's acceptance of a recommendation of an efficiency scrutiny on the processing of accounts, that credit cards should be used whenever possible to purchase or pay for goods and services.<sup>2</sup>
2. Credit cards enable agencies to purchase some goods and services with reduced administrative costs, and greater convenience and flexibility for staff, compared to using cash or cheques. However, the use of credit cards can expose agencies to risks of inappropriate or unauthorised expenditure. Agencies therefore should establish controls to effectively manage these risks. Such controls include informing cardholders of their obligations when using credit cards and having risk-based processes to check the validity of credit card expenditures. Once established, processes and controls within this framework should remain streamlined and effective.
3. Agencies generally use credit cards for services such as taxis, travel, accommodation and hospitality, as well as for small purchases of stationery stores, technical equipment and other goods. Credit cards are typically used for a large number of small transactions. Agencies usually establish their own credit card arrangements with banks or other card issuing bodies.
4. The total level of credit card expenditure by agencies is not publicly reported, and so is not readily estimated. However, credit card expenditures can be considerable, with some agencies spending tens of millions of dollars on purchases.

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<sup>1</sup> A Commonwealth credit card is defined in Section 60 (3) of the *Financial Management and Accountability Act 1997* to be a credit card issued to the Commonwealth to enable it to obtain cash, goods or services on credit.

<sup>2</sup> Department of Finance 1995, *The Australian Government Credit Card (AGCC), A Guide on Best Practice, Revised and Reissued*.

## Legislation and guidance related to credit cards

5. Requirements relating to the use of credit cards are provided in the *Financial Management and Accountability Act 1997* (FMA Act), *Financial Management and Accountability Regulations 1997* (FMA Regulations) and *Financial Management and Accountability Orders 2005* (FMA Orders). These requirements relate to such things as the need to make efficient, effective and ethical use of Commonwealth resources, ensuring all expenditure is appropriately authorised and the imposition of penalties on misuse of Commonwealth credit cards.<sup>3</sup> Under the Fraud Control Guidelines one of the core areas that agencies' fraud risk assessments must cover is the use of Government credit cards.<sup>4</sup>

6. Chief Executive's Instructions (CEIs) generally provide guidance on the use of Commonwealth credit cards within individual agencies. The Department of Finance and Deregulation (Finance) has issued guidance on the development of CEIs in relation to credit cards.<sup>5</sup>

## Framework for the management of credit cards by Australian Government agencies

7. While recognising legislative requirements and guidance on CEIs, approaches to using and administering cards and designing an effective control framework can vary between agencies, depending on the nature of the operations of the agency and the approach by management to purchasing arrangements. A mature framework governing the management of credit cards in APS agencies typically includes the administrative arrangements outlined in Figure 1.

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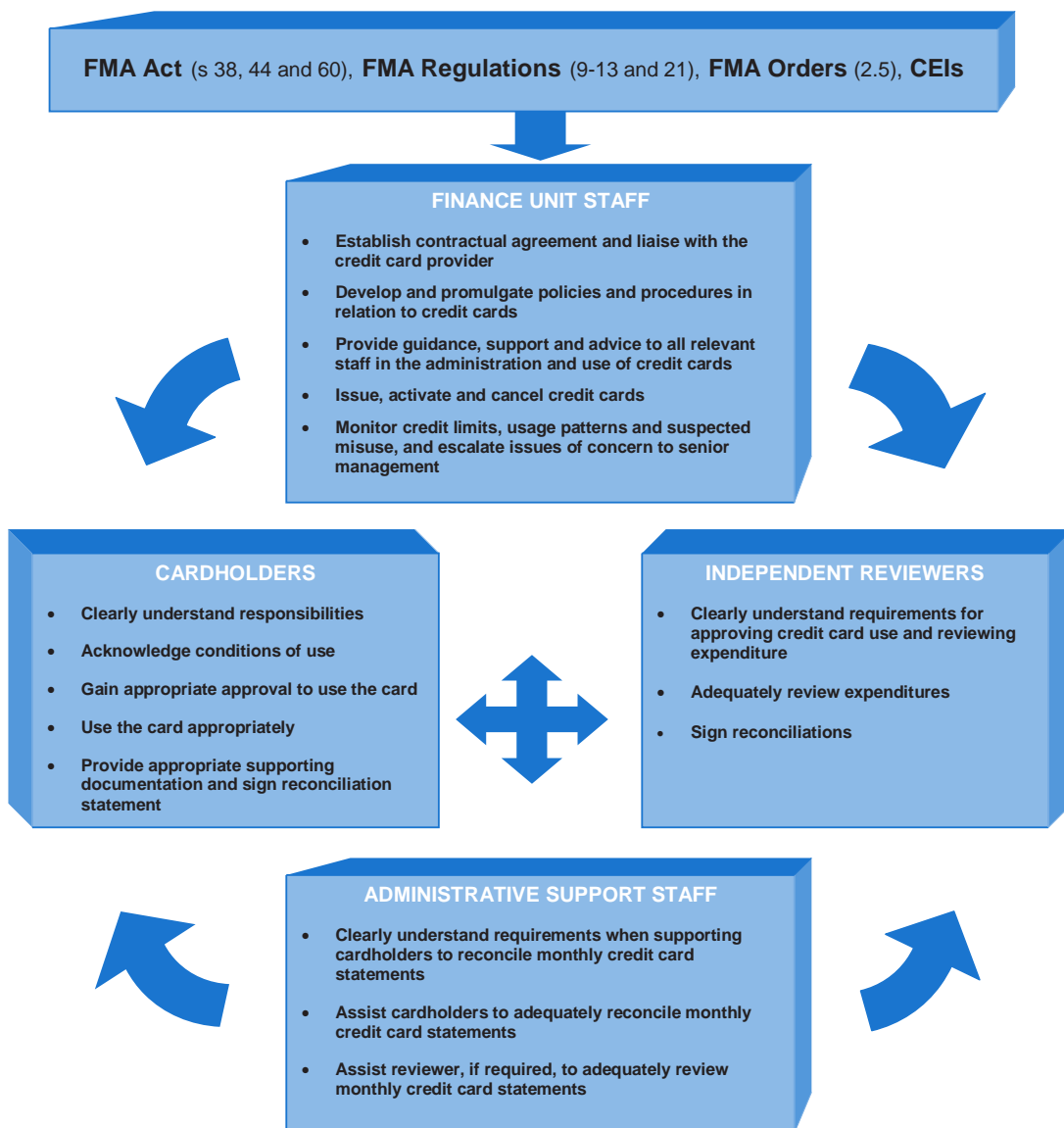
<sup>3</sup> Key legislation pertaining to credit cards includes FMA Act sections 38, 44 and 60, FMA Regulations 9–13 and 21 and FMA Order 2.5.

<sup>4</sup> Minister for Justice and Customs 2002, *Commonwealth Fraud Control Guidelines 2002*, Guideline 3 paragraph 3.9.

<sup>5</sup> The guidance was issued by the then Department of Finance and Administration, Finance Circular No. 2004/15 *Guidance on the Development of Chief Executive's Instructions*, 2004, available at <[www.finance.gov.au/finframework/docs/Attachment\\_to\\_FC\\_2004-15.rtf](http://www.finance.gov.au/finframework/docs/Attachment_to_FC_2004-15.rtf)>.

Figure 1

## Framework for the management of credit cards by Australian Government agencies<sup>A</sup>



Note: (A) Agencies should periodically review key elements of the framework to help ensure controls remain effective. This can be done as part of an agency's broader review processes or internal audit activity (as discussed in Chapter 4).

Source: ANAO.

## Audit approach

### Audit objective

8. The objective of this audit was to assess whether agencies had effectively administered credit cards, including having complied with legislative and internal requirements.

### Audit scope

9. The audit examined Commonwealth credit cards used in each of the four selected agencies. The audit did not examine specialist cards, such as fuel cards.

### Audit coverage and methodology

10. The four Australian Government agencies involved in this audit were the Department of Human Services, the Department of Agriculture, Fisheries and Forestry, the Department of Broadband, Communications and the Digital Economy<sup>6</sup> and the Australian Competition and Consumer Commission.

11. To address the audit objective, the ANAO reviewed arrangements in place for the management and use of credit cards. The audit focussed on processes and controls over the issue of cards (including lost and stolen cards) and the approval, payment and acquittal of credit card expenses.

12. The audit methodology included an examination of credit card policies and procedures, training activities, and monitoring and control arrangements. The examination was undertaken by reviewing documentation, interviewing staff and undertaking audit testing. A sample of transactions was tested to ensure they satisfied legislative and internal requirements.

13. Following the conduct of audit fieldwork, each audited agency was provided with a management report detailing audit findings, conclusions and recommendations for improvement.

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<sup>6</sup> The Department of Broadband, Communications and the Digital Economy was established under the Administrative Arrangements Order of 25 January 2008. This audit was largely undertaken in 2007 in the then Department of Communications, Information Technology and the Arts, prior to the formation of the new department. The processes for the administration of credit cards being used in the new department were similar to those that existed in its predecessor department.



## Conclusion

14. The use of Commonwealth credit cards to purchase mainly low-value goods and services involves relatively mature and straightforward financial processes. Control frameworks of Australian Government agencies are designed to mitigate risks of inappropriate or fraudulent use of cards. It is important that control frameworks are effective, as the misuse of credit cards can attract substantial public interest and reflect poorly on the ethical culture of an agency.

15. The combined effect of policies, procedures and administrative actions provided generally sound controls over the issue and cancellation of Commonwealth credit cards for all four agencies examined. These agencies had: established frameworks for providing guidance about issuing and cancelling credit cards that were integrated effectively into broader administrative arrangements; provided guidance for relevant staff that explained administrative actions required to apply for and return a credit card; and generally issued and cancelled cards in accordance with these policies and procedures. To help ensure cardholders are made aware of their obligations prior to using cards, there would be merit in one agency revising processes by having new (or re-issued) credit cards sent to the credit card administrator rather than directly to the cardholder.

16. In addition to providing adequate guidance about issuing and cancelling credit cards, the four agencies' policy and procedural documents provided specific guidance on credit card use. Cardholders, supervisors and credit card administrators at these agencies generally had a clear understanding of their responsibilities when using credit cards. To further inform staff of these responsibilities, there would be benefit in three of the agencies updating guidance to supervisors/managers on key matters to consider when reviewing monthly credit card statements. There would also be benefit in three agencies providing greater training to administrative support staff who prepare monthly credit card statement reconciliations.

17. Testing of credit card transactions demonstrated that the effectiveness of controls<sup>7</sup> over the use of Commonwealth credit cards varied across the audited agencies. These controls were generally effective in two agencies and moderately effective in another agency. However, one agency specifically

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<sup>7</sup> Key controls included the proper approval of expenditures, transactions being supported by appropriate documentation and monthly credit card statement acquittals being signed by the cardholder and an independent reviewer.

required improvement, as the ANAO found that almost one quarter (23 per cent) of transactions were not administered in accordance with legislative or internal requirements. Across the agencies, where the ANAO found instances of poorly operating controls they typically arose from: failure of the cardholder to obtain proper approval for expenditures and to retain sufficient supporting documentation; and inadequate credit card reconciliation statements, which were not completed correctly, supported by appropriate documentation and verified by the cardholder and independent reviewer.

18. The audit did not identify inappropriate expenditure or fraud in any of the audited agencies but does refer to Finance analysis of Certificate of Compliance returns regarding non-compliance with requirements relating to credit cards. The ANAO considers that all audited agencies need to strengthen key controls over credit cards to further reduce the risk of misuse of credit cards. More broadly, it is important that all agencies ensure that cardholders and other relevant staff comply with controls over the use of Commonwealth credit cards.

19. It is also important that agencies obtain value for money from their credit card provider. Two of the audited agencies had established an appropriate arrangement with their credit card provider, which included a specific contract. The other two agencies did not have a contract with a credit card provider, although one of these agencies did have a copy of the terms and conditions under which the credit card facility was made available. It would be timely for these two agencies to review whether it was appropriate to: continue with their current provider under the current terms; revise the terms and conditions with the current provider; or assess the merits of approaching the market for the provision of credit card services.

## **Key findings by chapter**

### **Issuing and Cancelling Credit Cards (Chapter 2)**

20. Issuing Commonwealth credit cards to appropriate staff in a timely way supports efficient and effective purchasing. Cancelling a card immediately after a staff member has no further operational requirements for it, reduces the risk of the card being misused.

21. The ANAO found that the frameworks for providing guidance relating to issuing and cancelling credit cards in the four agencies were generally

sound, as they were based on a hierarchy linking CEIs to detailed procedural rules<sup>8</sup> and credit card agreement and acknowledgement forms.<sup>9</sup>

22. Two of the audited agencies had detailed guidance on processes to be followed by Finance unit staff issuing credit cards. There would be benefit in the other two agencies documenting preferred approaches to processing credit card applications, as they are often undertaken by inexperienced officers in the Finance unit.

23. Audited agencies typically did not have guidance specifying processes that help ensure the credit card administrator is informed when staff were leaving the agency. To support the timely cancellation of credit cards and recovery of any outstanding expenditure, there would be benefit in separation certificates<sup>10</sup> including a requirement for cardholders to return credit cards on departure from an agency.

24. The ANAO tested 189 credit card applications across the four agencies to determine whether they were processed in accordance with internal processing requirements. This testing found that all processes related to issuing cards had occurred appropriately for three agencies. The other agency had a small number of missing records related to a relatively short period immediately after the agency was established.

25. ANAO testing also found that the cancellation process had been completed properly at all agencies, including that cards had been destroyed, and no transactions had been entered into after cards were cancelled.

### **Guidance and Training Related to Purchases with Credit Cards (Chapter 3)**

26. To minimise risks associated with credit card expenditures, agencies require an appropriate control framework covering a broad range of staff. A key element of the control framework is that agencies have policies and procedural documents with specific guidance as to the nature of reasonable credit card use, especially relating to sensitive items such as travel and hospitality.

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<sup>8</sup> Procedural rules provide detailed operational arrangements relating to policies set out in CEIs. They are usually issued by an agency's Chief Financial Officer, and can be either compulsory or discretionary.

<sup>9</sup> Agreement and acknowledgement forms are typically signed by a cardholder when they receive their credit card. They list key responsibilities of the cardholder, and can also refer to other guidance to be followed.

<sup>10</sup> These are routinely required by agencies and cover matters such as security passes, assets on issue (for example phones) and Commonwealth credit cards.

27. Three agencies had adequately documented business processes undertaken by the Finance unit to administer credit card expenditures. This was accomplished through various means such as manuals and intranet-based guidance. However, one agency did not document the checking process that occurred when processing monthly credit card statements or the reconciliations (and necessary follow-up action) that should be undertaken within the Finance unit. Providing that business processes have been appropriately documented, on-the-job training is likely to be sufficient for Finance unit staff to effectively administer credit card expenditures, particularly relating to monthly cardholder statements and reconciliations.

28. Agencies generally provided instruction to employees when they were first provided with a card. The cardholder was required to sign a form (often called an agreement and acknowledgement form) that covered a number of requirements regarding card use and related administration. The two agencies that used computerised systems to assist the administration of credit cards also had extensive guidance related to these systems, with one of these agencies providing cardholders with an online tutorial on credit cards as well as individual or group training for Canberra based staff.

29. Each agency made considerable effort to address the requirements of FMA Regulation 9 in regard to the use of credit cards.<sup>11</sup> One agency gave all cardholders FMA Regulation 9 delegations, another agency issued guidance that required the cardholder to have a FMA Regulation 9 delegation or have the expenditure approved by an appropriate delegate. The other two agencies required documented prior approval by an appropriate approver for certain expenditure but had considered that FMA Regulation 9 approval could be obtained as part of the monthly credit card reconciliation process in other instances. The ANAO considers that such expenditure contravenes FMA Regulation 13<sup>12</sup> and agencies need to amend processes to help ensure expenditure is approved in accordance with relevant FMA Regulations.

30. The ANAO notes, however, that in some instances appropriate verbal approvals may have been obtained.

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<sup>11</sup> FMA Regulation 9 requires an approver to satisfy himself or herself that the particular spending proposal accords with the policies of the Commonwealth and will make efficient and effective use of public money.

<sup>12</sup> FMA Regulation 13 requires that a person must not enter into a contract, agreement or arrangement under which public money is, or may become, payable unless a spending proposal for the proposed contract, agreement or arrangement has been approved under the relevant FMA Regulations.

31. If approval of a proposal to spend public money is not given in writing, FMA Regulation 12 requires the approver to record the terms of the approval in a document as soon as practicable after giving the approval. However, where there is no documented approval and agencies relied on a FMA Regulation 9 delegate signing the cardholder's monthly reconciliation statement it could not be known with certainty whether this delegate had originally provided prior oral approval. If he or she was not the approver, then the documentation did not satisfy FMA Regulation 12.

32. The ANAO found that there was generally scope to improve guidance to staff reconciling monthly credit card statements. In particular, agency guidance material generally did not clearly outline the role of staff reviewing monthly credit card statements that were submitted by cardholders. For example, one agency required reviewers to check monthly statements for accuracy or anomalies, but gave no guidance on how to do this.

33. Guidance provided by each of the agencies included provisions that advised cardholders of sanctions that applied in the case of misuse or abuse of credit cards (for example, fraud). However, this guidance typically did not specify what sanctions, if any, would be taken against cardholders who repeatedly did not comply with other responsibilities as cardholders (for example, timely reconciliation of statements or attaching relevant source documentation). The ANAO considers that agency guidance would be enhanced if there were an explicit explanation of the steps to be taken if cardholders, supervisors/reviewers and Finance unit staff do not carry out their administrative responsibilities as a cardholder in a diligent and timely manner.

34. In all audited agencies, administrative support staff were able to process monthly reconciliation statements on behalf of the cardholder,<sup>13</sup> although the cardholder was still required to sign and confirm the statement. However, the extent to which agencies provided training to these staff varied considerably. One agency trained administrative support staff to process monthly credit card statements, while another provided training to regional administrative staff but not usually to executive assistants. The other two agencies did not provide specific training to administrative support staff or executive assistants on credit card administration. To provide effective control

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<sup>13</sup> In this regard, administrative support staff typically fill out the details required on the cardholders monthly reconciliation statement including: coding information if known; attaching relevant supporting documentation supplied by the cardholder; and returning it to the cardholder for signature.

over credit card expenditures, it is important that agencies adequately train all staff processing monthly credit card statements and undertaking associated tasks.

## **Controls Over Credit Card Expenditure (Chapter 4)**

35. The ANAO tested whether each agency had established effective controls over credit card expenditures.<sup>14</sup> Key controls involve requiring approvals prior to credit card expenditure, setting expenditure limits, requiring appropriate supporting documentation and reviewing monthly reconciliation statements. As reported in paragraph 17, the ANAO concluded that the effectiveness of controls varied considerably across audited agencies.

36. In testing whether credit card transactions had been approved by a FMA Regulation 9 delegate, the ANAO found that:

- the agency that gave all credit card holders FMA Regulation 9 delegations for credit card purchases less than \$2000 had appropriate FMA Regulation 9 approvals in all cases except one where the transaction exceeded the \$2000 limit;
- in the agency that required cardholders to have a FMA Regulation 9 delegation or to obtain written approval from an appropriate delegate prior to a credit card purchase, there was not a clear documented record of appropriate FMA Regulation 9 approval for around one-third of transactions examined. It is possible that appropriate verbal approval was provided in these cases but this could not be known with certainty; and
- two agencies did not require documented approval for all forms of credit card expenditure,<sup>15</sup> and in these instances approval could not be known with certainty.

37. ANAO testing found that no credit card transactions exceeded established card limits in three agencies (see Table 1). In the other agency, a small number of transactions exceeded the transaction or monthly limits. One of the main reasons for this was that the agency lowered cardholders' transaction limits in agency records but did not advise the credit card provider.

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<sup>14</sup> To estimate credit card processing error rates, the ANAO obtained each agency's transaction data for the 2006–07 financial year and selected in total a sample of 628 transactions stratified by transaction size, type and frequency.

<sup>15</sup> However, these agencies had strong controls related to the monthly credit card reconciliation process.

**Table 1****Credit card processing error rates (estimated percentage of transactions<sup>A</sup>)**

Type of error	Agency A	Agency B	Agency C	Agency D
Transactions exceeded specified maximum transaction limits <sup>B</sup>	0	0	0.1	0
Transactions exceeded specified maximum monthly credit limits <sup>B</sup>	0	0	3.6	0
Transactions did not have appropriate supporting documentation	10.2	0	2.3	3.3
Monthly credit card statements were not signed by the cardholder	8.1	0	0	9.4
Monthly credit card statements were not signed by an independent reviewer	8.9	0	0	8.8
Transactions had not been correctly coded for tax purposes	12.6	4.7	1.5	0
Transactions had not been entered correctly in the agency's financial management information system (FMIS)	16.0	0	6.3	3.1

Notes: (A) Based on examination of 628 credit card transactions across four agencies.

(B) The transaction and monthly limits were the same in agencies A and D.

Source: ANAO.

38. One agency with over 10 per cent of tested credit card transactions that did not have appropriate supporting documentation (Agency A in Table 1) had guidance stating that supporting documentation was required for all transactions above \$50 to satisfy goods and services tax requirements. An unintended consequence of this guidance was a perception by some cardholders that receipts were not required for transactions less than \$50. The agency advised the ANAO that it will revise guidance to avoid this misunderstanding, as well as implement procedures to more closely scrutinise documentation supporting credit card statements.

39. To reinforce the importance of legislative compliance, Chief Executives of FMA Act agencies are required to provide a completed Certificate of Compliance.<sup>16</sup> The Department of Finance and Deregulation analysed Certificates provided by 92 FMA Act agencies for the 2006–07 financial year.

<sup>16</sup> A Certificate of Compliance consolidates a range of existing agency reporting requirements, and is intended to provide a comprehensive overview of the agency's compliance with the Australian Government's financial management framework.

This analysis revealed a total of 268 breaches of the FMA Act and associated legislation reported by 18 agencies relating to the misuse of credit cards. This was a relatively low incidence given that millions of credit card transactions were made by the 92 FMA Act agencies. The majority (84 per cent) of instances of non-compliance with the FMA Act and related legislation involving credit cards were reported under Section 60 of the FMA Act.<sup>17</sup> Three agencies reported 81 instances of non-compliance relating to credit cards due to alleged fraudulent activity. All 81 instances resulted in internal fraud investigations, with 16 (20 per cent) of those instances resulting in the employee's resignation or prosecution.

40. All four audited agencies required the cardholder and an independent reviewer to sign the credit card reconciliation statement. ANAO testing found that all cardholders and reviewers had signed monthly credit card reconciliation statements in two agencies. However, testing in the other two agencies revealed that these controls were not effectively implemented as almost 10 per cent of monthly credit card reconciliation statements were not signed by the cardholder or reviewer. This finding emphasises the importance of agencies clarifying requirements of staff reviewing monthly credit card statement reconciliations, to help ensure these reviews are effective.

41. The main reason for the relatively high reported processing error rate for one agency in coding credit card transactions was the lack of sufficient supporting documentation to verify correct accounting for tax purposes and appropriate recording in the agency's financial management information system (FMIS).

## **Managing the Relationship with the Card Provider (Chapter 5)**

42. To obtain value for money from a credit card facility, two agencies undertook a tender process and entered into contractual arrangements with the preferred card provider. These contracts clearly specified responsibilities of the agency and card provider, and included arrangements to review the provision of the service at the conclusion of the contractual period.

43. The other two agencies did not have a contract with their credit card provider, although one had a copy of the terms and conditions under which the credit card facility was made available. An immediate consideration for

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<sup>17</sup> Section 60 of the FMA Act specifies that cardholders must not use a Commonwealth credit card to obtain cash, goods or services otherwise than for the Commonwealth unless use is authorised by the Finance Minister's Orders and the Commonwealth is reimbursed in accordance with these Orders.



both these agencies is to place their relationship with the provider of their Commonwealth credit card facility on a basis that properly reflects the service provided. There would also be merit in these two agencies reviewing existing credit card arrangements to decide whether it is appropriate to: continue with their current provider under the current terms; revise the terms and conditions with the current provider; or assess the merits of approaching the market for the provision of credit card services.

44. All agencies advised of regular communication with the credit card provider in relation to day-to-day operational matters. Finance unit staff of all agencies identified no particular difficulties dealing with card providers.

### **Sound and better practices**

45. Table 2 outlines sound and better practices for administering credit cards identified during the audit.

**Table 2****Sound and better practices for administering credit cards**

Reference	Better practices
Issuing and cancelling credit cards	<p>Three agencies had processes that ensured the cardholder was not given responsibility for activating the card upon issue.</p> <p>One agency's separation certificate included a requirement for cardholders to return credit cards on departure from the agency.</p>
Guidance and training related to purchases with credit cards	<p>One agency provided cardholders with an online tutorial on credit cards as well as individual or group training.</p> <p>One agency provided useful guidance about issues to consider when reviewing cardholders' monthly statements.</p> <p>One agency trained administrative support staff with responsibilities in relation to credit cards.</p>
Controls over credit card expenditure	<p>One agency gave all credit card holders FMA Regulation 9 delegations up to a specified limit.</p> <p>Three agencies required all documentation supporting cardholders' monthly statements to be forwarded to the Finance unit.</p> <p>One agency regularly used management reports on credit card matters, and had undertaken an internal audit that assessed the control framework supporting the management of credit cards across the agency.</p>
Managing the relationship with the credit card provider	<p>Two agencies undertook a tender process and entered into contractual arrangements with the preferred card provider.</p>

Source: ANAO.

## Summary of agencies' responses

46. Each of the audited agencies agreed with the four recommendations. Where provided, agencies' general comments are included at Appendix 1.

# Recommendations

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*The following recommendations are based on findings from fieldwork at the audited agencies and broader audit analysis, and are likely to be relevant to all APS agencies. Therefore, all APS agencies should assess the benefits of implementing the recommendations in light of their own circumstances, including the extent that each recommendation, or part thereof, is addressed by practices already in place.*

## **Recommendation No. 1**

### **Para 2.11**

To support effective control over the issue and use of Commonwealth credit cards, the ANAO recommends that new (or re-issued) cards be sent to the credit card administrator rather than the cardholder. The credit card administrator should then require the cardholder to acknowledge his or her responsibilities related to using and safeguarding the card, prior to using the card.

## **Recommendation No. 2**

### **Para 3.34**

To reduce the risks associated with credit card expenditures, the ANAO recommends that agencies:

- (a) review approval processes related to credit card purchases to help ensure that all credit card transactions are supported by appropriate evidence that expenditure has been approved and appropriately recorded in accordance with Regulations 9 and 12 of the *Financial Management and Accountability Regulations 1997*;
- (b) include explicit statements in guidance relating to credit card administration of the responsibilities of cardholders, supervisors/reviewers and Finance unit staff when preparing, reviewing and processing monthly credit card statements; and provide for matters to be escalated, and sanctions imposed, in circumstances where these responsibilities are not met; and
- (c) deliver appropriate training for administrative support staff who prepare monthly credit card statements and supporting documentation for confirmation by cardholders.

**Recommendation  
No 3**

**Para 4.55**

To provide an effective control framework for purchases with credit cards, the ANAO recommends that agencies institute a process to undertake periodic risk-based reviews of compliance with relevant legislative and internal requirements.

**Recommendation  
No 4**

**Para 5.7**

To support value for money when procuring credit card services, the ANAO recommends that agencies:

- (a) hold copies of the terms and conditions of their credit card facility and ensure they reflect the service provided; and
- (b) review arrangements with the credit card provider as appropriate, such as towards the end of a contract period, to determine whether the arrangement represents value for money.

## **Audit Findings and Conclusions**



# 1. Introduction

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*This chapter provides background information about the audit, outlines key legislation and guidance related to credit cards, describes the framework for managing credit cards in Australian Government agencies and explains the audit approach.*

## Background

1.1 Commonwealth credit cards<sup>18</sup> were introduced for use in Commonwealth agencies in 1987 following the then Government's acceptance of a recommendation of an efficiency scrutiny on the processing of accounts that credit cards should be used whenever possible to purchase goods and services. This decision was based on a number of factors, including that the use of a credit card:

- satisfied the Government's objective of prompt payment to suppliers;
- offered significant savings in transaction costs;
- provided overall cash management advantages to the Commonwealth (as settlement via a credit card provided a credit period of up to 45 days, depending on the billing cycle); and
- provided greater visibility and an improved inherent audit trail in the payment of accounts (as each transaction appears on the cardholder's monthly statement).<sup>19</sup>

1.2 When first introduced, all agencies operated under a single card arrangement. Reflecting broad reforms to devolve responsibilities, Australian Government agencies generally now establish their own Commonwealth credit card arrangements with banks or other card issuing bodies.<sup>20</sup> Agencies often use credit cards for services such as taxis, travel, accommodation and hospitality, as well as for small purchases of stationery stores, technical equipment and other goods. Commonwealth credit cards are typically used for a large number of small transactions.

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<sup>18</sup> A Commonwealth credit card is defined in Section 60 (3) of the *Financial Management and Accountability Act 1997* to be a credit card issued to the Commonwealth to enable it to obtain cash, goods or services on credit.

<sup>19</sup> Department of Finance 1995, *The Australian Government Credit Card (AGCC), A Guide on Best Practice, Revised and Reissued*.

<sup>20</sup> Payment processing arrangements for agencies have also changed in many other ways since credit cards were first introduced, particularly in the significantly increased use of electronic funds transfer arrangements to pay for goods and services, rather than payment by cash or cheque.

1.3 The total level of credit card expenditure across all agencies is not publicly reported, and so is not readily estimated. However, credit card expenditures can be considerable, with some agencies spending tens of millions of dollars on purchases.

1.4 Credit cards enable agencies to efficiently purchase some goods and services with reduced administrative costs, and greater convenience and flexibility for staff, compared to using cash or cheques. However, the use of credit cards exposes agencies to risks of inappropriate or unauthorised expenditure. Individual cardholders as well as specialised purchasing officers are responsible for credit card expenditure.

### **Legislation and guidance related to credit cards**

1.5 Requirements relating to the use of credit cards are provided in the *Financial Management and Accountability Act 1997* (FMA Act), *Financial Management and Accountability Regulations 1997* (FMA Regulations) and *Financial Management and Accountability Orders 2005* (FMA Orders). These requirements relate to such things as the need to make efficient, effective and ethical use of Commonwealth resources, ensuring all expenditure is appropriately authorised and the imposition of penalties for misuse of Commonwealth credit cards.<sup>21</sup> Under the Fraud Control Guidelines one of the core areas that agencies' fraud risk assessments must cover is the use of Commonwealth credit cards.<sup>22</sup>

1.6 Chief Executive's Instructions (CEIs) generally provide guidance on the administration of Commonwealth credit cards within individual agencies. The Department of Finance and Deregulation (Finance) has issued guidance on the development of CEIs in relation to credit cards (see Figure 1.1).<sup>23</sup>

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<sup>21</sup> Refer in particular to FMA Act sections 38, 44 and 60, FMA Orders Order 2.5, and FMA Regulations 9–13 and 21.

<sup>22</sup> Minister for Justice and Customs 2002, *Commonwealth Fraud Control Guidelines 2002*, Guideline 3, paragraph 9.

<sup>23</sup> The guidance was issued by the then Department of Finance and Administration, Finance Circular No. 2004/15 *Guidance on the Development of Chief Executive's Instructions*, 2004, available at <[www.finance.gov.au/finframework/docs/Attachment\\_to\\_FC\\_2004-15.rtf](http://www.finance.gov.au/finframework/docs/Attachment_to_FC_2004-15.rtf)>.



**Figure 1.1****Guidance on the development of CEIs in relation to credit cards**

The guidance states that if developing a CEI on credit cards, an agency may wish to consider:

- referring to appropriate circumstances when a credit card may be issued;
- outlining purposes for which credit cards may be used;
- setting out the random audit of transactions to ensure compliance;
- outlining requirements on officials to have appropriate delegations to approve expenditure and enter into contracts;
- ensuring regular reviews to affirm that cardholders delegations and credit limits remain consistent and appropriate;
- setting out security requirements on cardholders;
- maintaining records for cardholders and other officials relating to transactions made on the card;
- specifying requirements on the official issuing a credit card to ensure that cardholders receive appropriate instruction and training on the use of the card;
- deciding whether Commonwealth credit cards may be used for incidental personal expenditure; and
- setting out repayment requirements on the cardholder.

Source: Department of Finance and Administration, Finance Circular No. 2004/15, *Guidance on the Development of Chief Executive's Instructions*.

1.7 In addition to guidance regarding the treatment of credit cards in CEIs, Finance provides some guidance on credit cards in other circulars, such as agency banking.<sup>24</sup>

## **Framework for managing credit cards in Australian Government agencies**

1.8 A sound control framework enables agencies to sufficiently mitigate risks associated with the inappropriate use of credit cards. Once established, it is important that processes and associated controls within this framework remain streamlined and effective.

1.9 While recognising legislative requirements and guidance on CEIs, the approach to using and administering cards and designing an effective control framework can vary between agencies, depending on the nature of the operations of the agency and the approach by management to purchasing arrangements. In a mature framework governing the management of credit cards in APS agencies, key controls over credit card use include that:

<sup>24</sup> Department of Finance and Administration 2003, *Agency Banking Framework Guidance Manual*.

- agencies have documented policies and procedural guidance that outline requirements governing the issue and use of the card. This includes guidance for cardholders, reviewers and administrative staff with responsibilities for administering credit cards;
- cardholders, reviewers and staff involved in administering credit cards receive appropriate instruction and have a clear understanding of their responsibilities in relation to credit card use;
- approval is obtained for all expenditure made with the credit card;
- agencies have an effective review process to help ensure credit card purchases are supported by appropriate documentation and all expenditure is acquitted in a timely manner; and
- credit card usage is subject to monitoring and review, covering matters such as credit limits, usage patterns and suspected misuse.

## Audit approach

### Audit objective and criteria

1.10 The objective of this audit was to assess whether agencies had effectively administered credit cards, including having complied with legislative and internal requirements.

1.11 In forming an opinion against the audit objective, the ANAO assessed whether each selected agency satisfied audit criteria outlined in Table 1.1. These criteria were based on the ANAO's assessment of key controls that agencies should implement to provide an effective control framework.

**Table 1.1****Audit criteria**

Criteria	Description
Arrangements to control the issue and return of credit cards	Appropriate policies, procedures and practices are in place to record and monitor card issue and cancellation, and maintain security over cards.
Guidance and training for staff with responsibilities related to credit card expenditure	Policies, procedures and guidance exist and are sufficiently detailed to clearly specify the responsibilities of relevant staff relating to credit cards. Staff receive adequate training and support to discharge their responsibilities to use and/or administer credit cards.
Controls over credit card expenditure	Policies, procedures and practices exist to ensure: credit card purchases are appropriately authorised and comply with legislative and internal requirements; quality control and quality assurance arrangements exist, as do appropriate supporting documentation (for example, registers, management reports and internal audit coverage); and mechanisms exist to minimise the risk of misuse of credit cards and to detect any such occurrences.
Managing the relationship with the card provider	Arrangements are in place to review the performance of the credit card provider to help ensure service levels meet agency needs. Agencies monitor the performance of the credit card provider (including feedback from cardholders and card administrators) and review financial costs of credit card provision.

Source: ANAO.

**Audit scope**

1.12 The audit examined Commonwealth credit cards used in each of the four selected agencies. The audit did not examine specialist cards, such as fuel cards.

**Audit coverage and methodology**

1.13 The four Australian Government agencies involved in this audit were the Department of Human Services, the Department of Agriculture, Fisheries and Forestry, the Department of Broadband, Communications and the Digital Economy<sup>25</sup> and the Australian Competition and Consumer Commission.

<sup>25</sup> The Department of Broadband, Communications and the Digital Economy was established under the Administrative Arrangements Order of 25 January 2008. This audit was largely undertaken in 2007 in the then Department of Communications, Information Technology and the Arts, prior to the formation of the new department. Processes for administering credit cards in the new department were similar to those in the predecessor department.

1.14 To address the audit objective, the ANAO reviewed arrangements in place for the management and use of credit cards and focussed on processes and controls over the issue of cards (including lost and stolen cards) and the approval, payment and acquittal of credit card expenses.

1.15 The audit methodology included an examination of credit card policies and procedures, training activities and monitoring and control arrangements. The examination was undertaken by reviewing documentation, interviewing staff and undertaking audit testing. A selection of credit card transactions was tested at each agency to assess whether they met legislative and internal requirements.

1.16 The ANAO conducted fieldwork in the audited agencies between July 2007 and February 2008. Following the conduct of audit fieldwork, each of the audited agencies was provided with a management report detailing the audit findings, conclusions and recommendations for improvement.

## **Assistance to the audit**

1.17 The ANAO engaged Pat Farrelly and Associates to assist with audit fieldwork and preparation of draft agency management reports and the report to Parliament. Allanson Consulting provided a range of statistical analysis for the audit.

1.18 The audit was conducted in accordance with the ANAO's Auditing Standards and was completed at a cost of approximately \$450 000.

## **Audit reporting and structure**

1.19 This audit is part of a program of cross-agency performance audits that examine business processes which support the delivery of services provided by Australian Government organisations. These audits are conducted at a selection of organisations, under the provisions of section 18 of the *Auditor-General Act 1997*, which provides for the examination of a particular aspect of the operations of the whole or part of the Australian Government sector. As any audit recommendations are framed to have general application, audit findings are reported to Parliament in generic terms, without being attributed to particular agencies. The report also includes references to sound and better practices identified during the audit.

1.20 The structure of the report reflects the audit criteria outlined in Table 1.1. In particular, it examines whether APS agencies had:

- arrangements in place to effectively control the issue and cancellation of credit cards (Chapter 2);
- provided appropriate guidance and training to staff with responsibilities related to credit card expenditure (Chapter 3);
- effective controls over credit card expenditure (Chapter 4); and
- arrangements in place to review the performance of their credit card provider (Chapter 5).

1.21 Appendix 1 provides comments from each of the audited agencies on the draft audit report.

## 2. Issuing and Cancelling Credit Cards

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*This chapter assesses whether agencies had policies, procedures and practices in place that effectively controlled the issuing and cancellation of credit cards.*

### Introduction

2.1 Issuing Commonwealth credit cards to appropriate staff in a timely way supports efficient and effective purchasing. Cancelling a card immediately after a staff member has no further operational requirements for it reduces the risk of the card being misused. Clearly documented processes underpin the effective issuing and cancellation of credit cards.

2.2 To assess the adequacy of issuing and cancelling credit cards, the ANAO considered whether each agency had:

- a framework for providing guidance about issuing and cancelling credit cards that was comprehensive and integrated effectively into broader administrative arrangements;
- readily available guidance for relevant staff that explained the administrative actions required to apply for and return a credit card; and
- issued and cancelled cards in accordance with its policy and procedures.

### Framework for providing guidance regarding issuing and cancelling credit cards

2.3 The ANAO found that the frameworks for providing guidance relating to issuing and cancelling credit cards in the four agencies were generally sound, as they were based on a hierarchy linking CEIs to detailed procedural rules<sup>26</sup> and credit card agreement and acknowledgement forms.<sup>27</sup>

2.4 The audited agencies generally had a designated credit card administrator within the Finance unit who undertook the central administration role related to the agency's administration of credit cards,

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<sup>26</sup> Procedural rules provide detailed operational arrangements relating to policies set out in CEIs. They are usually issued by an agency's Chief Financial Officer, and can be either compulsory or discretionary.

<sup>27</sup> Agreement and acknowledgement forms are typically signed by a cardholder when they receive their credit cards. They list key responsibilities of the cardholder, and can also refer to other guidance to be followed.

including issuing and cancelling cards. The credit card administrator and associated staff were typically available for agency staff to contact for advice, among other things, on the issue and cancellation of cards.

## **Guidance to relevant staff regarding issuing and cancelling cards**

2.5 To assess whether the framework for providing guidance regarding issuing and cancelling credit cards was underpinned by effective guidance, this section examines the adequacy of such guidance provided by the selected agencies to Finance unit staff, cardholders and their managers.

### **Finance unit staff**

2.6 Detailed administrative procedures for Finance unit staff cover matters such as:

- arrangements relating to applications for credit cards and procedures to liaise with the card provider;
- arrangements for activating cards, obtaining signed agreement and acknowledgement forms and providing necessary guidance and training; and
- processes for cancelling cards, including when an officer is leaving the agency or changing positions.

#### *Guidance about arrangements for applying for cards*

2.7 Two of the audited agencies had detailed guidance on the processes to be followed by Finance unit staff issuing credit cards. Figure 2.1 provides an example of the issues covered in such guidance for one of these agencies.

**Figure 2.1**

**Example of processes covered in guidance for Finance unit staff issuing credit cards**

- Processes covered in guidance for agency staff issuing credit cards included:
- issuing an application form to the staff member;
- carrying out an identity point check (if required by the card provider);
- checking completed credit card application forms to ensure compliance with policies, and whether limit arrangements were appropriate;
- forwarding the credit card application form to a Finance unit member with appropriate authority for approval; and
- completing the credit card provider application form and forwarding it to the provider.

Source: ANAO.

2.8 There would be benefit in the other two agencies documenting preferred approaches to processing credit card applications, as they are often undertaken by inexperienced officers in the Finance unit.

*Guidance about arrangements for activating cards*

2.9 To provide effective control over the issuing of credit cards, agencies' guidance (and their arrangements with the card provider) should direct that the card be provided to the credit card administrator. The credit card administrator would have responsibility to distribute the card to the cardholder and ascertain whether the cardholder requires any further instruction on processing requirements (for example, the monthly reconciliation process). Importantly, having responsibility for activating the card allows the Finance unit to ensure the cardholder signs the agreement and acknowledgement form (which draws the cardholder's attention to their responsibilities) prior to use, and receives any necessary instruction.

2.10 The card provider activated credit cards before they were provided to two agencies and in both cases the cards were sent to the Finance unit (not cardholders), thus allowing the Finance unit to control the initial use of the card. In another agency, all cards were activated centrally by officers in the Finance unit. Guidance in the remaining agency required credit cards to be directly provided to cardholders, who had responsibility for activating the card with the card provider.



## Recommendation No.1

2.11 To support effective control over the issue and use of Commonwealth credit cards, the ANAO recommends that new (or re-issued) cards be sent to the credit card administrator rather than the cardholder. The credit card administrator should then require the cardholder to acknowledge his or her responsibilities related to using and safeguarding the card, prior to using the card.

### Agencies' responses to the recommendation

2.12 Each of the audited agencies agreed with the recommendation.

#### *Guidance about cancelling cards*

2.13 All four audited agencies provided guidance on cancelling credit cards. In particular, the agreement and acknowledgement form signed by the cardholder typically specified that the card was to be returned on resignation, or on transfer or promotion where the card was no longer required.

2.14 Audited agencies typically did not have guidance specifying processes that help ensure the credit card administrator is informed when staff were leaving the agency. To support the timely cancellation of credit cards and recovery of any outstanding expenditure, there would be benefit in separation certificates<sup>28</sup> including a requirement for cardholders to return credit cards on departure from an agency.

### Cardholders and their managers

2.15 Agencies provide a range of guidance to staff about administrative actions required to obtain a Commonwealth credit card. This information is generally available on the agency's intranet, and includes: procedural rules covering the application to the bank; credit card expenditure limits and private expenditure on the cards; credit card application forms; and conditions of use of credit cards. This guidance generally also refers to processes to follow when an officer moves between positions within the agency or leaves the agency.

2.16 The ANAO found that all agencies provided appropriate guidance for cardholders and their managers relating to issuing and cancelling credit cards.

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<sup>28</sup> These are routinely required by agencies and cover matters such as security passes, assets on issue (for example phones) and Commonwealth credit cards.

## Example of guidance regarding issuing and cancelling cards

2.17 Figure 2.2 provides an example from one of the audited agencies that had detailed policies, procedures and guidance for issuing and cancelling credit cards. This agency had over 80 cardholders, and had mature financial management arrangements.

**Figure 2.2**

### Example of policies and procedures for credit card issue and cancellation

The agency's CEI sets out broad responsibilities related to credit cards and stipulates certain requirements for departmental cardholders. Underpinning the CEI is a Procedural Rule which provides for a range of matters, including the issue and cancellation of credit cards. Attached to the Procedural Rule is the format of the agreement and acknowledgement form that is to be completed by the cardholder.

Also associated with the Procedural Rule is a Credit Card Procedure Menu that provides detailed guidance for the Credit Card Administration area on the issue and cancellation of credit cards. This document sets out in considerable detail the processes that are to be undertaken by staff in the Credit Card Administration area related to the issue and cancellation of cards, including:

- detailed instructions on what is to occur with a new credit card application, its approval, application to the bank and issue of the card; and
- processes to be followed in the case of the issue of renewal credit cards, the amendment of existing cards and the cancellation of cards (such as destroying the card and advising the card provider).

Credit cards are already activated when they are collected from the bank by the Credit Card Administrator. There is a process whereby the credit cards are signed and necessary instruction given by the credit card administrator.

Source: ANAO.

## Issuing and cancelling cards in accordance with available guidance

2.18 The ANAO tested 189 applications across the four agencies<sup>29</sup> to determine whether they had the required documentation related to the issuing of credit cards. Based on procedures that were in place and to assess the operation of key controls, the ANAO expected to sight:

- signed application forms from cardholders that were appropriately authorised;

<sup>29</sup> In the case of one small agency the ANAO tested all applications since the agency commenced operations. For the other three agencies, the audit examined all credit card applications in 2006–07, or a selection of card applications in that year.

- agreement and acknowledgement forms completed by cardholders; and
- where necessary, evidence that prospective cardholders had provided documentation that would allow the credit card administrator to advise the bank that the applicant had met the identification requirements of the *Financial Transactions Reports Act 1988*.

2.19 The ANAO also examined evidence of the card having been provided and signed where that was part of the agency's process.

2.20 Audit testing found that all processes related to issuing cards had occurred appropriately for three agencies. The other agency (Agency A in Table 2.1) had a small number of missing records of application forms, agreement and acknowledgement forms and cardholder identification. These missing records related to a relatively short period immediately after the agency was established.

**Table 2.1**

**Extent to which audited agencies had appropriately issued credit cards**

Requirement	Agency A	Agency B	Agency C	Agency D
	Percentage of audited application forms <sup>A</sup>			
Application forms signed by cardholder and appropriately authorised	98	100	100	100
Agreement and acknowledgement form completed by cardholder	86	100	100	100
Agency advised identification provided by cardholder <sup>B</sup>	100	100	100	100

Notes: (A) Based on audit examination of 189 credit card applications.

(B) To varying degrees all agencies did not require 100 point identification for credit card applications as they verified staff members' identity when they became permanent employees.

Source: ANAO.

2.21 The ANAO examined records related to all cards cancelled in 2006–07 for three agencies, and a selection of cards cancelled in that year for the fourth agency. Audit testing found that all these cancellation processes had been completed properly, including that the cards had been destroyed and no transactions had been entered into after the cards were cancelled.

### 3. Guidance and Training Related to Purchases with Credit Cards

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*This chapter considers guidance and training to staff with responsibilities related to purchases with credit cards, including Finance unit staff, cardholders, reviewing officers, and administrative support staff.*

#### Introduction

3.1 Commonwealth credit cards place responsibility on individual cardholders, as well as traditional purchasing officers, to meet appropriate standards of accountability and transparency in purchasing and paying for goods and services. Inherent risks associated with the use of Commonwealth credit cards relate to improper or unauthorised purchases, payments for goods that may never have been received by the organisation, duplicate payments, and potential misuse of public funds for private benefit.<sup>30</sup>

3.2 An effective control framework is essential for agencies to be able to achieve the benefits of convenience and flexibility for staff and realise the processing efficiencies that credit cards can provide.

3.3 A key element of an effective control framework is that agencies have policies and procedures that clearly set out the key requirements and responsibilities for Finance unit staff, cardholders, reviewers and administrative support staff involved with the administration and use of credit cards. Such requirements also need to be understood and adhered to by each of these groups.

3.4 To assess the adequacy of guidance and training for staff with responsibilities in relation to purchases with credit cards, the ANAO examined whether:

- Finance unit staff had access to adequate guidance material and had been trained in their roles to administer credit cards (such as processing monthly credit card statements and conducting reconciliations);
- cardholders had been trained in their responsibilities for the use of credit cards; and

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<sup>30</sup> ACT Auditor-General's Office Performance Audit Report *Credit Card Use, Hospitality and Sponsorship* February 2007 p. 13–14.

- administrative support staff assisting cardholders and officers who provide independent review had been trained in their responsibilities related to the processing of monthly credit card statements.

## Guidance and training for Finance unit staff

3.5 To provide guidance on key processes for the administration of credit cards by Finance unit staff, agencies used a variety of sources including CEIs, procedural rules, conditions of use documents and supporting guidance documents. Figure 3.1 lists key processes that warrant detailed documentation to support Finance unit staff administer credit card expenditures.<sup>31</sup>

**Figure 3.1**

### **Key processes to be documented to support Finance unit staff administer aspects of purchases with credit cards**

Key processes to be covered in documented guidance include:

- where applicable, arrangements for the transfer of transaction data from the card provider, including processes surrounding this data being utilised by the agency's financial management information system;
- provision of monthly credit card statements to cardholders stipulating key dates for administrative action;
- disputed credit card transactions;
- private expenditure on the credit card;
- follow-up of credit card statements overdue for processing;
- reconciliation of various accounts within the financial management information system related to credit card transactions and payments; and
- checking of supporting documentation and compliance with all policies, procedures and delegations. This should be undertaken on a risk management basis.

Source: ANAO.

3.6 The ANAO considers that three agencies had adequately documented processes undertaken by the Finance unit to administer credit card expenditures. This was accomplished through various means such as manuals and intranet-based guidance.

3.7 However, one agency did not document the checking process that occurred to process monthly statements or the reconciliations (and necessary follow-up action) that should be undertaken within the Finance unit. The introduction of appropriate guidance is likely to enhance the consistency and effectiveness of this agency's administration of credit card expenditures. This

<sup>31</sup> It is also important that relevant staff are also made aware of provisions common to credit card use, such as those relating to travel, claims and payments, procurement and official hospitality.

guidance should include the requirement that reconciliations between the total expenditure from cardholder's credit card statements and expenditure recorded in financial management information systems be prepared in a timely manner, subject to independent review, and that identified discrepancies are promptly resolved.

3.8 Provided that business processes have been appropriately documented, on-the-job training is likely to be sufficient for Finance unit staff to effectively administer credit card expenditures, particularly monthly statement processing and reconciliations. Finance unit staff in all agencies were trained on-the-job to understand processes for administering Commonwealth credit cards.

3.9 One agency had a specific provision requiring the Finance unit to initiate regular quality assurance reviews on the use of credit cards, whereas the other three agencies did not.<sup>32</sup> The ANAO suggests that agencies' guidance in relation to purchases with credit cards includes a requirement to undertake on a risk-basis reviews of the use of credit cards. Such reviews could, for example, be incorporated into an agency's review of procurement or other broader Finance functions.

## **Guidance and training for cardholders on card use**

3.10 ANAO discussion with cardholders indicate that they typically rely on guidance on credit card use from a number of sources, including CEIs, procedural rules and credit card manuals. Cardholders were often directed to particular elements of this guidance in the agreement and acknowledgement form they signed and the training and advice they received from Finance unit staff. Figure 3.2 identifies key matters to be covered in guidance on credit card use.

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<sup>32</sup> The extent to which audited agencies adhered to this guidance is discussed in Chapter 4, (paragraphs 4.44–4.47).

**Figure 3.2****Matters to be covered in guidance on credit card use**

Key matters to be covered by guidance on credit card use include that cardholders:

- use credit cards to pay for official purchases in accordance with instructions issued with the card;
- use cards for minor purchases of goods or services, subject to any limitations or conditions issued with the card;
- do not split transactions to overcome card limits;
- without a delegation to 'approve proposals to spend public money'<sup>33</sup> must obtain approval from an official with the relevant delegation before they use their credit card for any transaction;
- retain tax invoices (or receipts) for all expenses;
- keep cards secure and report any loss of the card to the card provider; and
- familiarise themselves with policies and guidance related to travel, claims and payments, procurement and official hospitality.

Source: ANAO.

3.11 Agencies generally provided instruction to employees when they were first provided with a card. The credit card administrator would have responsibility to distribute the card to the cardholder and ascertain whether the cardholder requires any further instruction on processing requirements (for example, the monthly reconciliation process). Finance unit staff in all agencies also provided advice and assistance to cardholders over the phone and through emails.

3.12 The four selected agencies generally had guidance for card use that contained the elements outlined in Figure 3.2.<sup>34</sup> The two agencies that used computerised systems to assist the administration of credit cards also had extensive guidance related to these systems, with one of these agencies providing cardholders with an online tutorial on credit cards as well as individual or group training for Canberra-based staff.

3.13 In discussions with cardholders, the ANAO was advised that guidance and instruction issued when the card was provided was generally satisfactory. In three of the audited agencies, cardholders advised that adequate written guidance was supplemented by either online training or individual instruction about the use of the card and the reconciliation process. In the one agency where only written guidance was provided, staff indicated that some individual instruction on credit card use would be helpful.

<sup>33</sup> As per Regulation 9 of the *Financial Management and Accountability Regulations* 1997 (FMA Regulation 9).

<sup>34</sup> The two areas not adequately covered by agency documentation were splitting transactions and FMA Regulation 9, which are discussed at paragraphs 4.17 and 4.11–4.13 respectively.

3.14 Overall, the ANAO found that existing guidance and training related to the use of credit cards by cardholders was generally sufficient to enable cardholders to use the card effectively on a day-to-day basis and in compliance with legislative and agency policy requirements. However, an issue where agencies had some uncertainty about appropriate approaches involved the application of FMA Regulation 9.

## **FMA Regulation 9**

3.15 Each agency made considerable effort to address the requirements of FMA Regulation 9 in regard to the use of credit cards. FMA Regulation 9 requires an approver to be satisfied, after making reasonable inquiries, that the spending proposal accords with the policies of the Commonwealth and will make efficient and effective use of public money. Figure 3.3 lists the main elements for agencies to consider when developing guidelines and processes to help ensure the use of credit cards satisfy FMA Regulation 9.

**Figure 3.3**

### **Key elements for agencies to consider to help ensure purchases with credit cards satisfy FMA Regulation 9**

To help ensure purchases with credit cards satisfy FMA Regulation 9 agencies should consider the following key elements:

- Spending proposals relating to credit card use must be approved by an FMA Regulation 9 delegate<sup>A</sup> prior to entering into the contract, agreement or arrangement (that is signing the credit card receipt to purchase goods).
- For the purposes of FMA Regulation 9, the approver can be the credit card holder.<sup>B</sup> The approver must meet the requirements of FMA Regulation 9 in approving a spending proposal (that is making such inquiries as are reasonable to ensure the spending proposal is consistent with the policies of the Commonwealth and will make efficient and effective use of public money).
  - For example, minor credit card expenditures such as on local taxi fares are likely to only require the approver to consider the need for the trip and whether a taxi provides a reasonable (for example convenient, low-cost, appropriate) means of transport in the circumstances.
- It is possible to give all staff, or all staff with credit cards, delegations up to set limit for expenditures on certain items procured with credit cards.
  - For example, agencies can provide all staff with the delegation to spend up to say \$500 on taxi fares or other minor purchases, and allow them to use credit cards or other payment methods.

Notes: (A) The approver must have an appropriate delegation provided by the agency Chief Executive. This delegation is generally made through the agency's formal delegation process, irrespective of whether the delegated officer has a credit card.

(B) In these circumstances the approver is discharging the requirements of FMA Regulation 9. However, this does not mean that he or she is approving his or her own expenditure (that is, the actual release of monies from the Commonwealth to the credit card provider). That is properly a separate step done by an appropriate official.

Source: ANAO.



3.16 To help satisfy the requirements of FMA Regulation 9 for purchases made with credit cards:

- one agency gave all cardholders the authority to make purchases of less than \$2000 on the card and within designated cost centres;
- another agency issued guidance that required the cardholder to have FMA Regulation 9 delegation or have the expenditure approved by an appropriate delegate prior to the purchase; and
- the other two agencies required documented approval by an appropriate approver prior to many forms of credit card purchases, but for other, minor purchases (such as taxis not associated with other approved travel) they considered that approval could be granted by an appropriate delegate as part of the monthly credit card reconciliation process.

3.17 One agency had obtained legal advice that FMA Regulation 9 approval could be provided as part of the monthly credit card reconciliation process. The ANAO and the Department of Finance and Deregulation do not agree with this interpretation as it contravenes FMA Regulation 13.<sup>35</sup> The ANAO notes, however, that appropriate verbal approvals could still have been obtained in instances where these agencies were relying on monthly credit card reconciliation 'post-approvals'.<sup>36</sup>

3.18 Finance is currently updating guidance to support agencies meet the requirements of FMA Regulations 7 to 13, and has advised the ANAO that it will consider addressing the issue of FMA Regulation 9 approvals for credit card use as part of this revised guidance.

3.19 The ANAO considers it important that all agencies establish approaches (and reflect these in associated guidance) to help ensure credit card use satisfies FMA Regulation 9 (as outlined in Figure 3.3). A practical approach is to give staff with credit cards, delegations up to a set limit for expenditures on certain items purchased with credit cards.

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<sup>35</sup> FMA Regulation 13 requires that a person must not enter into a contract, agreement or arrangement under which public money is, or may become, payable unless a spending proposal for the proposed contract, agreement or arrangement has been approved under FMA Regulation 9 and, if necessary, in accordance with FMA Regulation 10.

<sup>36</sup> See audit findings reported in paragraph 4.12.

## FMA Regulation 12

3.20 Regulation 12 of the *Financial Management and Accountability Regulations 1997* (FMA Regulation 12) further requires that:

If the approval of a proposal to spend public money is not given in writing, the approver must record the terms of the approval in a document as soon as practicable after giving the approval.

3.21 Finance Circular 2004/05 *Regulation 12 of the Financial Management and Accountability Regulations 1997* provides additional guidance.<sup>37</sup> That guidance notes that documentation may be in a number of forms and include different types of information depending upon the nature of the proposal to spend public money. For example, appropriate documentation may include records in the agency's FMIS or, for smaller or less significant proposals especially, a receipt or vendor statement, for example a Cabcharge or similar receipt signed by the approver.<sup>38</sup>

3.22 As administrative processes at the selected agencies involved credit card vendor statements being sent to cardholders for reconciliation, checked by supervisors and thereafter entered into a financial management information system (FMIS), a possible test of FMA Regulation 12 is that relevant cardholder monthly reconciliation statements were signed by a FMA Regulation 9 delegate in accordance with agency requirements. However, a fundamental problem with this test is uncertainty as to whether the delegate signing the reconciliation statement actually was the approver for the purposes of FMA Regulation 9.<sup>39</sup> If he or she was not the approver, then the documentation does not satisfy FMA Regulation 12.

3.23 Therefore when establishing approaches to ensuring that credit card purchases satisfy the requirements of FMA Regulation 9, as discussed in paragraph 3.19, it is important that agencies recognise the need to develop approaches that also satisfy the requirements of FMA Regulation 12.

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<sup>37</sup> The Circular is available from <<http://www.finance.gov.au>> (under the *Government Finances* menu).

<sup>38</sup> Finance Circular 2004/05 *Regulation 12 of the Financial Management and Accountability Regulations 1997*, paragraph 10.

<sup>39</sup> As mentioned in paragraph 3.20, FMA Regulation 12 requires the approver to record the terms of the approval.

## Guidance and training for processing monthly credit card statements

3.24 Agencies provided guidance to their staff through CEIs, procedural rules and related guidance material in regard to processing monthly credit card statements. There was also specific guidance in relation to computerised systems where agencies used such systems to facilitate credit card administration.

3.25 Two agencies operated computerised management systems for their monthly credit card statement reconciliations and review. These systems required cardholders to complete certain fields (such as cost codes and tax codes) and the monthly reconciliation process. Two agencies used manual systems and therefore monthly credit card reconciliation, including coding, was undertaken manually and data input by the Finance unit. All agencies required source documentation (such as tax invoices or receipts) to be attached to hard copies of the reconciliation or statement.

3.26 All agencies had a process whereby a manager or other staff member reviewed the reconciliation before it was forwarded to the Finance unit for processing. These processes are important in helping to ensure that: all transactions on the statement are valid; the transaction is attributed to the correct cost centre; the agency deals appropriately with tax on the transaction; and necessary approval has been provided.

3.27 The ANAO found that there was scope to improve guidance to staff reconciling monthly credit card statements. In particular, three agencies did not clearly outline requirements of staff reviewing monthly credit card statements that were submitted by cardholders. One of these agencies required reviewers to check monthly statements for accuracy or anomalies, but gave no guidance on how to do this. The ANAO considers that agencies should explicitly outline their expectations of staff reviewing monthly credit card statements. Figure 3.4 outlines the types of matters the ANAO considers should be subject to review.

**Figure 3.4**

**Matters that should be considered when reviewing monthly credit card statements**

Key matters that should be subject to independent review include whether:

- appropriate supporting documentation had been attached to the monthly credit card statement;
- the amounts on supporting documentation such as tax invoices were accurately reflected in the statement;
- necessary approvals were obtained and documented to satisfy FMA Regulations 9 and 12;
- ledger codes, cost centre codes and tax codes were correct; and
- the cardholder had inappropriately split purchases to overcome transaction limits on their card.

Source: ANAO.

3.28 One agency with a computerised credit card administration system required supporting documentation to be attached to a printed copy of the monthly statement and that all documentation be sent to the Finance unit for filing and possible audit. Testing for this audit revealed that this requirement was not adhered to, and therefore the Finance unit was not able to easily undertake a quality review of monthly card statements against source documentation.

3.29 Guidance provided by each of the agencies included provisions that advised cardholders of sanctions that applied in the case of misuse or abuse of credit cards (for example, fraud). However, this guidance typically did not specify what sanctions, if any, would be taken against cardholders who repeatedly did not comply with other responsibilities as cardholders (for example, timely reconciliation of statements or attaching relevant source documentation). The ANAO considers that agency guidance would be enhanced if there were an explicit explanation of the steps to be taken if cardholders, supervisors/reviewers and Finance unit staff do not carry out their administrative responsibilities as a cardholder in a diligent and timely manner.

3.30 With respect to fraud, all agencies identified risks associated with the use and misuse of credit cards in their fraud control plans. The degree to which credit card risks were addressed varied depending on the level of credit card expenditure in the agency and the number of cardholders. The ANAO notes that fraud risk approaches associated with purchases using credit cards should also be informed by other relevant data, including the results of quality assurance reviews undertaken on key elements of credit card administration.

## Guidance and training for administrative support staff processing monthly credit card statements

3.31 In all audited agencies, administrative support staff were able to process monthly reconciliation statements on behalf of the cardholder,<sup>40</sup> although the cardholder was still required to sign and confirm the statement.

3.32 However, the extent to which agencies provided training to these staff varied considerably. One agency trained administrative support staff to process monthly credit card statements, while another provided training to regional administrative staff but not usually to executive assistants. The other two agencies did not provide specific training to administrative support staff or executive assistants on credit card administration.

3.33 To provide effective control over credit card expenditures, it is important that agencies adequately train all staff processing monthly credit card statements and undertaking associated tasks.

## Recommendation No.2

3.34 To reduce the risks associated with credit card expenditures, the ANAO recommends that agencies:

- (a) review approval processes related to credit card purchases to help ensure that all credit card transactions are supported by appropriate evidence that expenditure has been approved and appropriately recorded in accordance with Regulations 9 and 12 of the *Financial Management and Accountability Regulations 1997*;
- (b) include explicit statements in guidance relating to credit card administration of the responsibilities of cardholders, supervisors/reviewers and Finance unit staff when preparing, reviewing and processing monthly credit card statements; and provide for matters to be escalated, and sanctions imposed, in circumstances where these responsibilities are not met; and
- (c) deliver appropriate training for administrative support staff who prepare monthly credit card statements and supporting documentation for confirmation by cardholders.

## Agencies' responses to the recommendation

3.35 Each of the audited agencies agreed with the recommendation.

<sup>40</sup> In this regard, administrative support staff typically fill out the details required on the cardholder's monthly reconciliation statement, including: coding information (if known); attaching relevant supporting documentation supplied by the cardholder; and returning it to the cardholder for signing.

## 4. Controls Over Credit Card Expenditure

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*This chapter describes key processes for administering purchases with credit cards and examines controls over credit card expenditure. It presents results of testing a sample of transactions in each of the audited agencies and an assessment of related control arrangements.*

### Introduction

4.1 Chapter 3 examined whether agencies provided sufficient guidance and training to enable cardholders, supervisors and credit card administrators to have a clear understanding of their roles and responsibilities in relation to credit card expenditures.

4.2 The impact of policy and guidance material, training provided to staff and agencies' business processes should provide agencies with assurance that individual transactions comply with legislative and policy requirements and that monthly credit card statements are processed appropriately.

4.3 To assess the effectiveness of the overall control environments of the selected agencies in relation to purchases with credit cards, the ANAO:

- tested the effectiveness of credit card controls; and
- examined relevant management reporting and internal audit coverage.

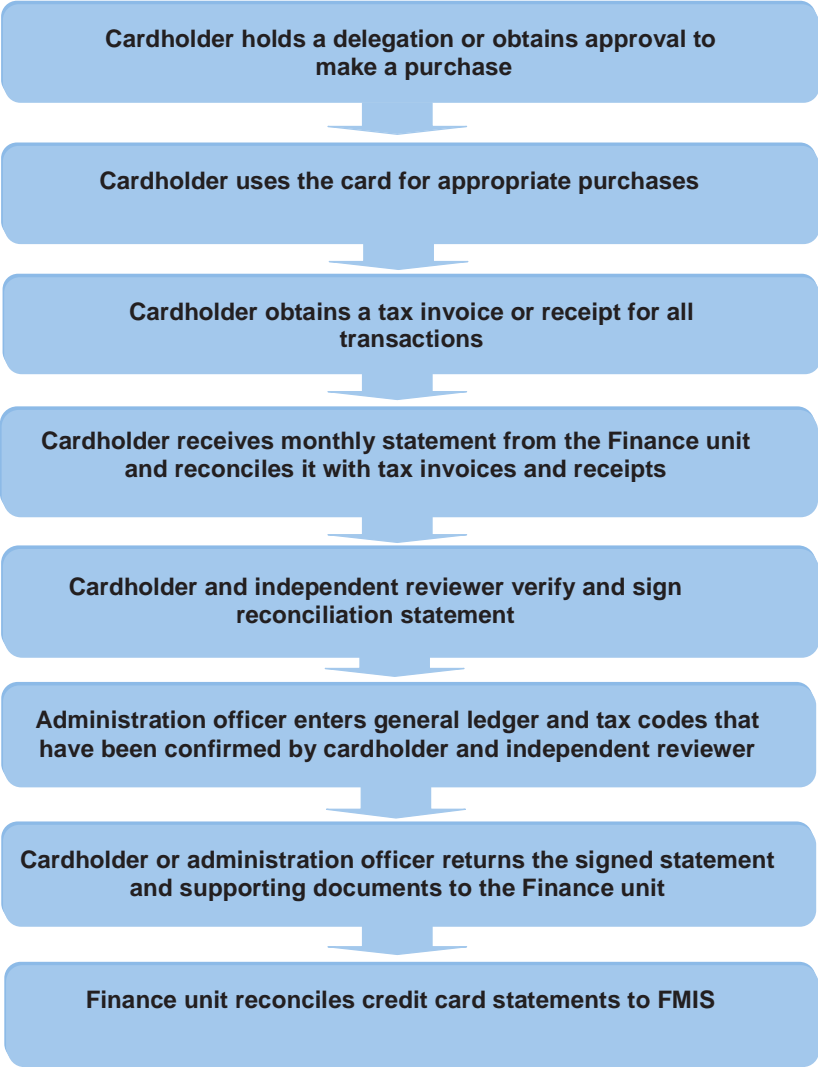
### Key processes for administering purchases with credit cards

4.4 As discussed in paragraph 1.2, credit cards are typically used for a large number of small transactions by many officers. To provide a framework that delivers adequate control over expenditures but is not administratively burdensome, agencies generally implement processes based around ensuring: approvals were obtained for expenditure; cardholders obtain appropriate supporting documentation (usually tax invoices or receipts) to substantiate the transactions; supporting documentation is reconciled with credit card expenditures on a monthly basis; and reconciliations are subject to independent verification and review.

4.5 Figure 4.1 outlines the key administrative processes associated with purchases using credit cards that were typically undertaken in the selected agencies.

**Figure 4.1**

**Agencies' key processes associated with purchases with credit cards**



Source: ANAO.

## Testing credit card controls

4.6 Although each agency had adopted different approaches to credit card processing in accordance with its own requirements, the ANAO tested whether they had established effective controls over credit card expenditures.

### Sampling approach and criteria

4.7 To undertake a robust estimation of credit card processing error rates, the ANAO selected a stratified sample of transactions in each agency. In total, the ANAO examined 628 transactions from the four agencies<sup>41</sup> to ascertain whether the processing controls outlined in Figure 4.2 had been implemented.<sup>42</sup>

**Figure 4.2**

#### Credit card controls tested by the ANAO

For each credit card transaction examined, the ANAO ascertained whether:

- the transaction was appropriately authorised;
- the transaction was within specified transaction and monthly credit limits;
- the transaction was supported by appropriate documentation (tax invoices, receipts or statutory or cardholder declarations);
- corresponding monthly credit card statement acquittals were signed by the cardholder and an independent reviewer; and
- the transaction had been correctly coded for tax purposes and recorded appropriately in the agency's FMIS.

Source: ANAO.

4.8 ANAO testing indicated that the integrity of controls surrounding credit card transactions varied. These controls were generally effective in two agencies and moderately effective in another agency. However, one agency specifically required improvement, as the ANAO found that almost one quarter (23 per cent) of transactions were not administered in accordance with legislative or internal requirements.

4.9 Across the agencies, where the ANAO found instances of poorly operating controls they typically arose from: failure of the cardholder to obtain proper approval for expenditures and to retain sufficient supporting documentation; and inadequate credit card reconciliation statements, which

<sup>41</sup> The ANAO obtained each agency's transaction data for the 2006–07 financial year and selected a sample stratified by transaction size, type and frequency.

<sup>42</sup> These controls cover all the key processes listed in Figure 4.1.



were not completed correctly, supported by appropriate documentation and verified by the cardholder and independent reviewer.

4.10 The audit did not identify inappropriate expenditure or fraud in any of the audited agencies. However, given the findings presented in the remainder of this chapter the ANAO considers that all selected agencies need to strengthen key controls over credit cards to further reduce the risk of misuse of credit cards.

### **Credit card transactions were appropriately authorised**

4.11 As discussed in Chapter 3 (paragraphs 3.15 to 3.23), the selected agencies had different approaches to addressing FMA Regulation 9 when approving credit card expenditures, reflecting uncertainty about actions required to satisfy FMA Regulation 9.

4.12 In testing whether credit card transactions had been approved by an FMA Regulation 9 delegate the ANAO found that:

- the agency that gave all credit card holders FMA Regulation 9 delegations for credit card purchases less than \$2000 had appropriate FMA Regulation 9 approvals in all cases except one where the transaction exceeded the \$2000 limit;
- in the agency that required cardholders to have FMA Regulation 9 delegation or to obtain written approval from an appropriate delegate prior to credit card purchases, there was not a clear documented record of appropriate FMA Regulation 9 approval for around one-third of transactions examined. It is possible that appropriate verbal approval was provided in these cases but this could not be known with certainty; and
- two agencies did not require documented approval for all forms of credit card expenditure,<sup>43</sup> and in these instances approval could not be known with certainty.

4.13 Therefore, agencies need to establish practical approaches to satisfying FMA Regulations 9 and 12, such as giving all staff with credit cards delegations up to a set limit for expenditures on certain items procured with credit cards.

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<sup>43</sup> However, these agencies had strong controls related to the monthly credit card reconciliation process.

## **Transactions were within transaction and monthly credit limits**

4.14 Each of the selected agencies had established limits for their cardholders. Three of the four agencies had both individual transaction and monthly limits on credit card expenditures, while the fourth agency only had monthly limits. The typical transaction limit was \$2000.<sup>44</sup> The monthly limit typically ranged between \$5000 and \$20 000, although some staff have monthly limits up to \$60 000.<sup>45</sup>

4.15 All agencies had arrangements with their credit card provider to establish controls to ensure transaction and monthly limits would not be exceeded.

4.16 ANAO testing found that no credit card transactions exceeded established card limits in three agencies. In the other agency, a small number of transactions exceeded the transaction or monthly limits. These transactions occurred for two main reasons:

- the agency lowered cardholders' transaction limits in agency records but did not advise the credit card provider. The agency advised the ANAO that to rectify this it would implement a process to periodically check that provider's records reflected limits recorded by the agency; and
- vendors' did not always seek authorisation from the bank prior to accepting a purchase using a Commonwealth credit card. In these cases, the credit card provider will usually automatically process the transaction. This agency had sought and received an explanation from their credit card provider about this issue.

4.17 The ANAO also identified 10 transactions within the same agency where amounts paid for purchases were split so that the transaction limits of the cardholder were not exceeded. This practice contravened the agency's policy. Given that transaction splitting had not been identified through the agency's review process, the ANAO considers that the review undertaken by the supervisor/manager was not effective. The agency advised that revised guidance will require supervisors to be mindful of possible splitting of transactions when checking credit card statements.

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<sup>44</sup> Agencies generally selected a \$2000 transaction limit, as these transactions did not require a purchase order.

<sup>45</sup> Monthly limits were based on agencies' assessment of expected card usage, having regard to the risk of inappropriate use. Officers with more senior roles or in specific purchasing roles generally had higher transaction and monthly limits.

4.18 The ANAO notes that three agencies had undertaken reviews of credit card usage that considered cardholder limits. In some cases, these reviews resulted in cards being cancelled or limits changed. The ANAO considers there would be benefit in agencies continuing to undertake such reviews periodically, as part of ongoing monitoring of credit card activity.

### **Transactions had appropriate supporting documentation**

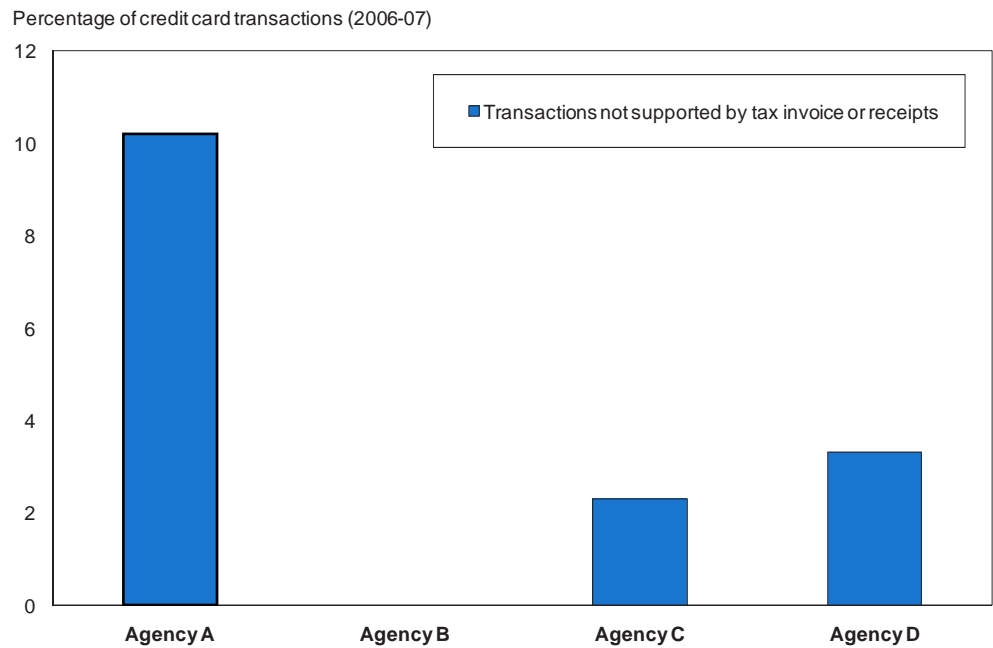
4.19 As the use of credit cards can expose agencies to risks of unauthorised expenditure if not properly controlled, it is important that all credit card transactions have appropriate supporting documentation through the provision of tax invoices, receipts or cardholder declarations.<sup>46</sup>

4.20 Of the 628 transactions tested, the ANAO found 32 instances (5 per cent) where the credit card transaction did not have appropriate supporting documentation. Twenty-three of these instances (over 70 per cent) occurred in one agency, where over 10 per cent of tested credit card transactions did not have any or appropriate supporting documentation (see Figure 4.3).

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<sup>46</sup> Tax invoices, invoices, receipts, and cardholder declarations are appropriate documentation to substantiate credit card expenditure. A tax invoice is generally issued by the supplier. It shows the price of a supply, indicating whether it includes GST. It must show other information, including the ABN of the supplier. A tax invoice enables an agency to claim input tax credits on its GST return. Agencies generally require a tax invoice for all purchases above the threshold specified by the ATO to be eligible to claim GST. Otherwise an invoice or receipt is obtained. The terms invoice and receipt refer to the bill issued by the provider of a good or service and a written acknowledgement that a specified article or sum of money has been received. Where cardholders have misplaced a tax invoice or other receipt, agencies generally have a system whereby the cardholder declares that the purchase was a legitimate expense, made in accordance with the agency's purchasing guidelines.

**Figure 4.3**  
**Credit card transactions not supported by tax invoices or receipts**



Source: ANAO testing.<sup>47</sup>

4.21 The majority of those transactions in Agency A not supported by tax invoices or receipts were for less than \$50 in value. The agency’s Financial Rules stated that supporting documentation was required for all transactions above \$50 to satisfy goods and services tax requirements.<sup>48</sup> An unintended consequence of this guidance was a perception by some cardholders that receipts or tax invoices were not required for transactions less than \$50 in value. The agency advised the ANAO that it will revise relevant guidance to avoid this misunderstanding. The agency also advised that it now required cardholders to provide adequate supporting documentation for all transactions and had implemented procedures to more closely scrutinise documentation supporting credit card statements, and escalate instances where appropriate supporting documentation was not provided.

<sup>47</sup> The results of testing (at a confidence level of 95 per cent in each agency) of whether credit card transactions were supported by appropriate documentation are as follows: Agency A 6.0 and 16.6 per cent, Agency C 1.3 and 7.7 per cent and Agency D 1.3 and 7.8 per cent, where figures represent the lower and upper bounds for each agency.

<sup>48</sup> This amount was derived from the Australian Taxation Office *Fact Sheet for Valid Invoices and GST credits*. The updated version is available at <<http://www.ato.gov.au/print.asp?doc=/Content/50913.htm>>.

## Misuse under section 60 of the FMA Act

4.22 In regard to misuse of credit cards, Section 60 of the FMA Act specifies that cardholders:

must not use a Commonwealth credit card, or a Commonwealth credit card number, to obtain cash, goods or services otherwise than for the Commonwealth unless use is authorised by the Finance Minister's Orders; and the Commonwealth is reimbursed in accordance with the Finance Minister's Orders.

4.23 Under FMA Order 2.5, the chief executive of an agency can authorise the holder of a Commonwealth credit card to use a Commonwealth credit card for coincidental private use, and reimburse the Commonwealth accordingly.

4.24 In the sample of transactions examined, the ANAO identified one instance of incidental personal use, which had been identified by the cardholder and promptly reimbursed, technically breaching Section 60 of the FMA Act.

### *Finance analysis of Certificate of Compliance returns regarding non-compliance with requirements relating to credit cards*

4.25 To reinforce the importance of legislative compliance by public sector entities, commencing from the 2006–07 financial year, Chief Executives of agencies under the FMA Act are required to provide a completed Certificate of Compliance to their portfolio minister and copied to the Minister for Finance by 15 October each year.<sup>49</sup> The Certificate consolidates a range of existing agency reporting requirements and is intended to provide a comprehensive overview of the agency's compliance with the Australian Government's financial management framework.

4.26 Finance analysed Certificates provided by 92 FMA Act agencies for the 2006–07 financial year and reported the main findings.<sup>50</sup> This analysis revealed a number of instances of non-compliance related to the misuse of credit cards.

4.27 The majority (224 or 84 per cent) of instances of non-compliance with the FMA Act and related legislation involving credit cards were reported under Section 60 of the FMA Act. However 8 per cent of instances of non-compliance involving credit card misuse were reported under

<sup>49</sup> Finance Circular 2006/08 provided guidance on completing the Certificate.

<sup>50</sup> A special forum for agency Chief Financial Officers was held on 18 December 2007. The Finance Chief Executive also wrote to the Chief Executives of FMA Act agencies in February 2008, informing them of the Certificate results.

Finance Order 2.5. The remaining 8 per cent of instances of non-compliance were reported under FMA Regulation 9, FMA Regulation 10, FMA Act Sections 10 and 13. Overall, 65 per cent of all instances of non-compliance relating to credit cards were reported by four agencies.

4.28 It is important to note the relatively few reported instances of non-compliance related to credit cards. The 268 instances reported in 2006–07 were from millions of credit card transactions entered into by the 92 FMA Act agencies.

4.29 The majority of agencies that reported instances of non-compliance also provided details of corrective action. The most common corrective action taken by agencies that reported ‘personal use of a Commonwealth credit card’ was recovery of funds and training for the official. Three agencies reported 81 instances of non-compliance relating to credit cards due to alleged fraudulent activity (see Table 4.1). All 81 reported instances resulted in internal fraud investigations, with 16 (20 per cent) of those instances resulting in the employee’s resignation or prosecution. Of all the instances of non-compliance relating to credit cards, 17 per cent resulted in the agency modifying their internal processes.

**Table 4.1**

**Breaches relating to credit cards reported by FMA Act agencies responding to the 2006–07 Certificate of Compliance**

Type of breach	No of agencies	No of breaches
Personal use of credit cards	15	131
Alleged fraudulent activity	3	81
Reported generically as misuse of Commonwealth credit card	9	30
Lack of authorisation to use Commonwealth credit card	7	26
<b>Total breaches involving credit cards</b>	<b>27<sup>A</sup></b>	<b>268</b>

Note: (A) Several agencies reported against multiple categories of instances of non-compliance relating to credit cards. Therefore, summing the number of agencies reporting against each category will result in double counting.

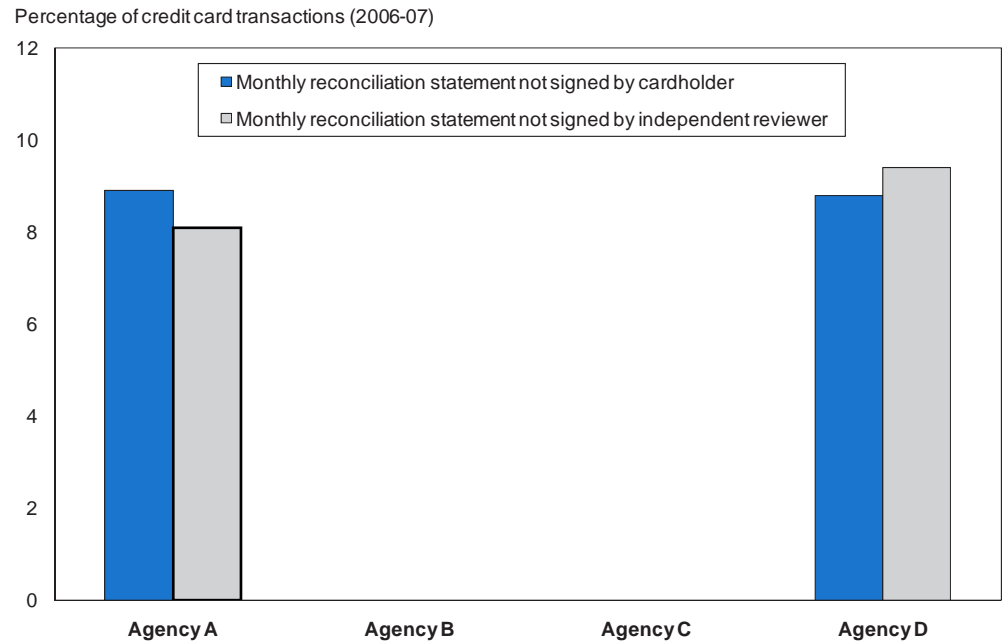
Source: Department of Finance and Deregulation.

**Monthly credit card reconciliation statements were signed by the cardholder and an independent reviewer**

4.30 All four audited agencies required the cardholder and an independent reviewer to verify and sign the cardholder’s monthly reconciliation statement (as mentioned in paragraph 3.27).

4.31 ANAO testing found that all cardholders and reviewers had signed monthly credit card reconciliation statements in two agencies. However, testing in the other two agencies revealed that almost 10 per cent of monthly reconciliation statements were not signed by the cardholder or by the reviewer (see Figure 4.4). In most cases where a credit card statement was not signed by the cardholder, it was also not signed by an independent reviewer.

**Figure 4.4**  
**Monthly reconciliation statement not signed by cardholder or reviewer**



Source: ANAO testing.<sup>51</sup>

4.32 Given the importance of the reconciliation process to verify that credit card purchases represent efficient and effective use of public money, the

<sup>51</sup> The processing error rates presented in Figures 4.3–4.5 are unbiased population estimates. That is, they are accurate estimates of the actual processing error rates that would be obtained from examining the entire population of credit card transactions in 2006–07. The 95 per cent confidence intervals for the estimates presented in Figure 4.4 are all around +/- 5 percentage points.

ANAO considers that the proportion of unsigned monthly credit card reconciliation statements was too high in these two agencies. As such, the control was not effectively implemented by these two agencies, thereby increasing the risk that credit cards could be misused.

4.33 As mentioned in paragraph 3.27, three agencies did not clearly outline the role of the supervisor or other staff reviewing monthly credit card statements that were submitted by cardholders, or how they should check for accuracy or anomalies. This reinforces the importance of agencies clarifying requirements of supervisors and other staff reviewing monthly credit card statement reconciliations, to help ensure that such reviews are thorough and effective.

#### *Timeliness*

4.34 It is also important that the credit card reconciliation process is undertaken in a timely manner. Each selected agency had specified timeframes within which cardholders were expected to submit reconciliation statements to the Finance unit for processing and recording in the agency's FMIS. These timeframes were 24 hours from the receipt of the statement in one agency, five days from the receipt of the statement in two agencies, and until the 20th day of the following month in the remaining agency.

4.35 As agencies do not generally record when statements are received by the cardholder, sent to an independent reviewer and forwarded to the Finance unit for processing, the ANAO reviewed those instances where there was a gap of at least three months between the date of the transaction and the date it was entered into the agency's FMIS.

4.36 Audit testing found that all transactions of three agencies were processed within this time. However, for ten transactions (6 per cent of those examined) in the other agency more than three months elapsed from the date of the transaction until it was entered in the agency's FMIS by the Finance unit. These delays were due to the slow return of reconciled monthly statements to the Finance unit, although it was not clear whether the delay was due to the cardholder, the supervisor or a combination of both.



**Transactions were correctly accounted for tax purposes and recorded appropriately in the agency’s FMIS**

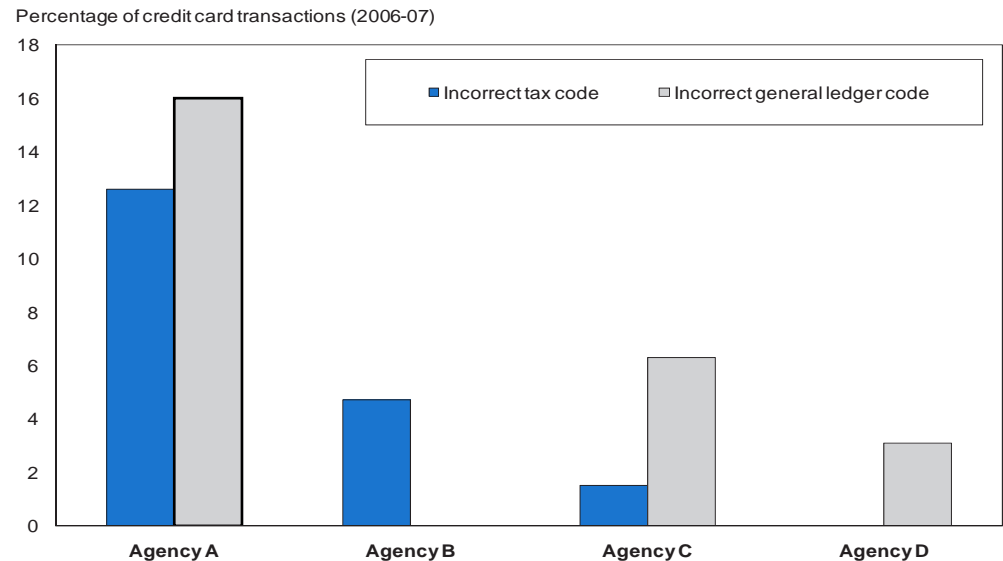
4.37 Incorrect tax coding can lead to more tax being payable by agencies than is necessary, or non-compliance with tax legislation.<sup>52</sup> Errors in general ledger coding<sup>53</sup> can lead to reduced costing accuracy, thus reducing the quality of information available for managers to consider when making decisions.

*Accuracy of tax coding*

4.38 ANAO testing identified a moderate incidence of tax coding errors in relation to the recording of credit card expenditure in one of the audited agencies (12 per cent of transactions), low levels of errors in two agencies and no errors in the other agency (see Table 4.5).

**Figure 4.5**

**Tax and general ledger coding potentially accounted for incorrectly in agency FMIS**



Source: ANAO testing

<sup>52</sup> Where agencies incorrectly record transactions as not having a tax invoice, the agencies are unable to claim an input tax credit on their GST return and therefore have more tax payable. Alternately, where agencies incorrectly record a transaction as having a tax invoice and claim an input tax credit they will contravene taxation requirements.

<sup>53</sup> These errors occur, for example, when travel expenditure is incorrectly recorded as another type of expenditure such as printing.

4.39 The main reason for the relatively high tax coding error rate for one agency (Agency A in Figure 4.5) was a lack of sufficient supporting documentation to verify correct accounting for tax purposes. It is likely that provision of relevant tax invoices would reveal that some of these cases were correctly coded, but this cannot be confirmed.

4.40 The majority of errors identified for another agency (Agency B in Figure 4.5) arose from cardholders' incorrectly coding that the transaction was not able to claim a GST rebate, when it could have. Most of these instances were due to the cardholder entering that they had a receipt or made a declaration rather than holding a tax invoice, and the agency's credit card system was designed not claim GST in either of these cases. The agency had identified this problem but had not rectified it at the time of the audit. While these amounts foregone were not material in a financial sense, it remains important that agencies accurately account for and claim GST rebates.

*Accuracy of general ledger coding and recording of expenses in an agency's FMIS*

4.41 The ANAO also found that credit card expenditure had potentially been recorded incorrectly in three agencies as general ledger coding (which is used to determine where such expenditure is recorded in agencies' FMIS) was incorrect.

4.42 For Agency A in Figure 4.5, the main problem again related to a lack of supporting documentation, which did not allow the ANAO to verify whether many transactions had been coded to the correct general ledger account, and therefore were treated as errors. In addition to this problem, 25 per cent of identified errors resulted from one cardholder not submitting one monthly reconciliation statement. The agency advised the ANAO that it has reviewed business processes relating to monthly credit card statements and taken action to ensure correct costing in the future.

4.43 The ANAO considers that the level of tax coding and general ledger coding errors demonstrate that all audited agencies have scope to improve processing of credit card transactions.

## **Checking by Finance unit staff of cardholder monthly reconciliations and reconciliation of credit card expenditure with general ledger**

### *Checking by Finance unit staff of cardholder monthly reconciliations*

4.44 In addition to cardholders and independent reviewers verifying and signing monthly reconciliation statements, Finance unit staff in each selected agency checked cardholder reconciliations to varying degrees. Generally this involved checking whether:

- both the cardholder and independent reviewer had signed the statement;
- supporting documentation had been provided for each transaction (although in one agency all supporting documents were held in divisions and details were not provided to the Finance unit staff); and
- tax and general ledger codes were correct.

4.45 The ANAO found reviews by the Finance unit in two agencies to be generally effective. In another agency, Finance unit staff reviewed all reconciliations but did always follow-up on unsigned monthly credit card reconciliation statements.

4.46 The relatively high incidence of errors in the remaining agency (Agency A as shown in Figures 4.3 and 4.5) was largely due to insufficient documentation supporting the cardholder's reconciliation statement. The lack of documentation also reduced the effectiveness of reviews undertaken by Finance unit staff.<sup>54</sup> Nevertheless, the Finance unit at this agency could have more actively sought this documentation, and followed-up reconciliation statements that were not signed by the cardholder and reviewer.

4.47 The ANAO found little evidence at any of the agencies that Finance unit staff had sought more information from the cardholder, clarified issues with the cardholder or independent reviewer, or raised issues relating to monthly credit card reconciliations with senior management. However, Finance unit staff in each of the agencies advised that when they had required more information from the cardholder, or had to clarify issues with the

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<sup>54</sup> In Agency A, general ledger codes were generally not provided by the cardholder and independent reviewer prior to being sent to the Finance unit for processing. This resulted in considerable work by the Finance unit to determine the appropriate general ledger code. This task was made more difficult by the lack of supporting documentation provided by the cardholder.

cardholder or independent reviewer, they either rang or emailed the cardholder or supervisor.

4.48 On the basis of audit testing, the ANAO considers there is scope for agencies to reconsider the extent of checking undertaken by Finance unit staff, with a view to applying a risk-based checking approach. For example, based on an assessment of risks, agencies could examine a sample of credit card statements from all relatively new cardholders, any cardholders with a history of non-compliance and a sample of credit card transactions from the remaining cardholders. In this regard, the ANAO noted that agencies that required credit card statements and associated supporting documentation to be submitted to a central area for checking were better able to ensure a consistent standard of checking was undertaken.

#### Reconciliation between credit card expenditure and general ledger

4.49 Each month Finance unit staff at the audited agencies reconciled information on the total expenditure from all cardholder's credit card statements with expenditure recorded in the agency's FMIS. This process is generally reviewed by another officer in the Finance unit.

4.50 The ANAO reviewed a sample of 2006–07 monthly reconciliations in each of the audited agencies and found that:

- in two agencies, all reconciliations were completed in a timely manner, verified by an independent person and matters raised by the reconciliation process were resolved in an appropriate manner;
- in another agency, half of reconciliations tested (two of four) had not been signed by an independent officer, and the majority were not prepared and reviewed within the agency's specified timeframe; and
- in the other agency, 31 (nearly eight per cent) of cardholder's monthly statements had not been submitted during 2006–07 which resulted in reconciliation carrying a growing amount of unallocated expenditure forward each month.<sup>55</sup> The ANAO advised the agency that it should process this backlog of unreconciled cardholder monthly statements in a timely manner.

4.51 It is important that agencies, as part of their quality assurance processes, prepare and review such reconciliations in a timely manner.

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<sup>55</sup> The only expenditure incurred in four of these statements was the annual charge imposed by the credit card provider. This charge should have been allocated to the appropriate general ledger rather than continuing to be included in the unallocated expenditure category.

## Management reports and internal audit coverage

4.52 The ANAO also examined whether the agencies had compiled management reports related to the use of credit cards or had undertaken any internal audit activity on this matter. The two agencies which used an automated system in the management of credit cards had produced management reports and undertaken internal audits on this topic. As an example of better practice, one of these agencies produced and regularly used three management reports on credit card matters<sup>56</sup> and had undertaken an internal audit that assessed the control framework supporting the management of credit cards across the agency.

4.53 In the remaining two agencies, one had completed a review of cardholder transaction and monthly limits, which resulted in a reduction in limits that were no longer required and the cancellation of a number of cards. The remaining agency had not done any such reviews on the basis that the number of credit card holders and level of expenditure was low.

4.54 As discussed in Chapter 3 paragraph 3.9, the ANAO considers there is benefit in agencies reviewing the effectiveness of controls relating to credit cards. This could be done, for example, as part of an agency's broader review processes or internal audit activity.

## Recommendation No.3

4.55 To provide an effective control framework for purchases with credit cards, the ANAO recommends that agencies institute a process to undertake periodic risk-based reviews of compliance with relevant legislative and internal requirements.

### Agencies' responses to the recommendation

4.56 Each of the audited agencies agreed with the recommendation.

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<sup>56</sup> These three reports included: a quarterly stocktake that assists the agency determine whether all cards are still required; a Commonwealth Credit Card Expenditure Alert Report to determine whether there are transactions on cancelled cards and also whether there are transactions above approved limits; and a report on Commonwealth Credit Card Personal Expenditure.

## 5. Managing the Relationship with the Credit Card Provider

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*This chapter assesses whether agencies had appropriate arrangements in place to manage the relationship with their credit card provider.*

### Introduction

5.1 The ANAO examined whether agencies had:

- contractual or other arrangements with their credit card provider that facilitated value for money; and
- effective communication with their credit card provider on day-to-day operational matters.

### Contractual arrangements

5.2 Two agencies had independently established arrangements with a credit card provider through a tender process. The other two agencies had established credit card arrangements under terms of contracts their portfolio departments had with a credit card provider.

5.3 The two agencies that used a tender process had entered into contractual arrangements with their card providers. Figure 5.1 identifies key matters that were covered in these contracts.

**Figure 5.1**

#### **Example of key matters covered in contract with credit card providers**

Key matters that should be covered in a contract include:

- arrangements for the issue of cards, including time taken for new cards and processes for replacement cards;
- controls on the use of cards, including a facility limit, a credit limit for each card, a transaction limit and merchant blocks;
- arrangements for the provision of statements, settlement of outstanding balances and help services;
- procedures for meetings, complaints and enquiries; and
- fees and applicable interest rates.

Source: ANAO.

5.4 The other two agencies did not have contractual arrangements with their card provider, although one of these agencies held a copy of the terms and conditions under which the credit card facility was made available. The

ANAO considers that the other agency should ascertain, and obtain a copy of, the precise terms and conditions of the credit card facility. An immediate consideration for both of these agencies is to place their relationship with the provider of their Commonwealth credit card facility on a basis that properly reflects the service provided.

5.5 The ANAO considers it desirable that these two agencies review their existing credit card arrangements to decide whether it is appropriate to: continue with their current provider according to the current terms; revise the terms and conditions with the current provider;<sup>57</sup> or assess the merits of approaching the market for the provision of credit card services.

5.6 If these two agencies were to approach the market for credit card services, the following criteria would be useful in the assessment of potential providers:

- the quality of service offered, including handling queries from cardholders;
- acceptability of cards both domestically and internationally;
- ability to provide an appropriate expense management system (if desired);
- past performance and financial and resource capacity;
- financial costs associated with credit card provision; and
- implementation and transition strategies.

## Recommendation No.4

5.7 To support value for money when procuring credit card services, the ANAO recommends that agencies:

- (a) hold copies of the terms and conditions of their credit card facility and ensure they reflect the service provided; and
- (b) review arrangements with the credit card provider as appropriate, such as towards the end of a contract period, to determine whether the arrangement represents value for money.

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<sup>57</sup> Terms and conditions potentially subject to revision include the provision of help services, the nature of communication, complaint handling mechanisms, fees and the timing of processes.

## **Agencies' responses to the recommendation**

5.8 Each of the audited agencies agreed with the recommendation.

### **Communication with the card provider**

5.9 All agencies advised of regular communication with their credit card provider in relation to day-to-day operational matters. Finance unit staff of all agencies identified no particular difficulties dealing with their providers. On the basis of discussion and review of relevant correspondence the ANAO found all of the selected agencies communicated sufficiently to resolve identified issues on an as-needs basis.

5.10 One agency indicated that there have been several meetings with officers from the card provider over the past two years to resolve operational issues. The contract with the card provider makes specific provision for such meetings, although the agency indicated that it did not retain a record of these meetings. The ANAO suggests that it would be good practice, and in accordance with the contract, to make a record of such meetings and to provide a copy of the record to the card provider.

5.11 For the two agencies that only received standard hard-copy monthly statements (as there was no computerised system in operation), their credit card provider did not supply any management reports on the agency's use of credit cards to allow card usage to be monitored by the agency. For those agencies with automated systems, reports can be generated from data on their FMIS or credit card administration system to assist in the administration of credit cards.

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Ian McPhee  
Auditor-General

Canberra ACT  
3 June 2008



# Appendices



## Appendix 1: Comments from the Audited Agencies

*This Appendix contains general comments received on the audit report that are not shown in the body of the report.*

Each of the agencies selected for the audit were provided with the opportunity to comment on the proposed audit report (or extracts of the proposed report, where applicable) in accordance with the provisions of section 19 of the *Auditor-General Act 1997*.

Agencies' responses to a recommendation have been included in the main body of the report under the subheading 'Agencies' responses' directly following the recommendation.

General responses are reproduced below.

The Department of Agriculture, Fisheries and Forestry advised:

The Department of Agriculture, Fisheries and Forestry acknowledges the work of the ANAO and agrees with its recommendations. These recommendations will assist in improving governance procedures and practices as part of the department's ongoing commitment to continuous improvement.

The Department of Broadband, Communications and the Digital Economy advised:

The Department of Broadband, Communications and the Digital Economy agrees with and has commenced implementing the report's recommendations. The department has also completed a comprehensive review of its Chief Executive Instructions and Practical Guides to simplify them, to better align delegations to ensure that they better support business processes and to improve processes for spending public money, including with respect to credit cards. Targeted training on financial processes has also been progressed.

The Department of Human Services advised:

We note the report and have taken account of its recommendations, including implementing stronger controls and increased scrutiny on the operation of this facility.

The Department of Finance and Deregulation advised:

Finance supports the recommendations. The sound use and management of credit cards is an essential part of ensuring compliance with the financial management framework. Finance notes that the audit did not identify inappropriate expenditure or fraud in any of the four audited agencies and found that each agency had made a considerable effort to address the requirements of Regulation 9 of the *Financial Management and Accountability Regulations* (FMA Regulations) in regard to the use of credit cards. Implementation of the report's recommendations would contribute to the sound use and management of credit cards and Finance will bring the report to the attention of all Chief Financial Officers of agencies under the *Financial Management and Accountability Act 1997* after it has tabled. Finance agrees with the suggestion that further guidance to agencies would be beneficial and will consider providing additional practical guidance on the application of the FMA Regulations to credit card expenditure in the upcoming Finance Circular *Commitments to spend public money (FMA Regulations 7 to 13)*.

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