



Volume 3.0 Designing Internal Controls

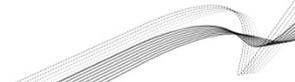
Overview of Volume 3

Volume 3 discusses the fundamental elements supporting the design and implementation of internal control systems.

The *Financial and Performance Management Standard 2009* requires agencies to have regard to the Handbook when establishing their internal control systems and processes. Agencies must comply with the contents of the Handbook when they apply to agency circumstances. Agencies will therefore need to be mindful of this requirement when establishing and implementing internal financial controls and operational processes.

This Volume consists of the following Information Sheets:

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3.1	Risk Identification and Management	January 2017
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Information Sheet 3.1 – Risk Identification and Management

Introduction

The purpose of risk identification and management is to establish, reinforce or refine appropriate internal controls that will minimise, or at best, neutralise, the impact of potential threats on the achievement of government and agency objectives.

This Information Sheet is designed to assist agencies with respect to risk identification and management.

Prescribed requirements

The *Financial Accountability Act 2009* requires all accountable offices and statutory bodies to establish and maintain appropriate systems of internal control and risk management (section 61).

The *Financial and Performance Management Standard 2009*, section 28, prescribes that the agency's risk management system must provide for:

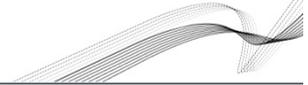
- mitigating the risk to the department or statutory body and the State from unacceptable costs or losses associated with the operations of the department or statutory body, and
- managing the risks that may affect the ability of the department or statutory body to continue to provide government services.

A Guide to Risk Management

Queensland Treasury, in collaboration with the Department of the Premier and Cabinet, has published *A Guide to Risk Management* (the Guide) which provides guidance to agencies in the identification and management of agency, cross-agency and whole-of-Government risks.

The purpose of the Guide is to provide an overview of the key concepts of risk management, and guidance on how the risk management process can be practically applied by any Queensland public sector agency.

The Guide is intended to be an information reference and contains the minimum principles and procedures which should be incorporated into a basic risk management process to assist departments and statutory bodies in adopting a consistent approach to risk management. The Guide is not mandatory, however its application will encourage better practice and support accountable officers and statutory bodies in the implementation of effective risk management practices at all levels within their agency, aiding them in fulfilling their statutory obligations under the Financial Accountability Act and the Financial and Performance Management Standard. The Guide can be accessed on Queensland Treasury's website at <http://www.treasury.qld.gov.au/office/knowledge/docs/risk-management-guide/index.shtml>



Related resources

- Australian/New Zealand Standard AS/NZS ISO 3100:2009 Risk Management – Principles and Guidelines, Standards Australia/Standards New Zealand
<http://www.riskmanagement.com.au/>
- Corruption in focus: a guide to dealing with corrupt conduct in the Queensland public sector, Crime and Corruption Commission
- Fraud and Corruption Control: Guidelines for Best Practice, Crime and Corruption Commission
<http://www.ccc.qld.gov.au>

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.



Information Sheet 3.2 – Internal Control Structure

Introduction

Section 8 of the *Financial and Performance Management Standard 2009* (the Standard) provides that each accountable officer and statutory body must establish a cost-effective internal control structure for their agency, and that this structure must be included in the agency's financial management practice manual.

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) is an internationally recognised voluntary private sector organisation that has established a common internal control model against which organisations may assess their control systems. COSO defines internal control as “a process ... designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations”.

High-level information about the purpose and features of internal controls is available in *Information Sheet 2.3 – What are Internal Controls?*

This Information Sheet is designed to assist agencies to understand the essential components of any internal control structure, the scope of internal control activities, and management responsibility with respect to these activities.

Components of internal control structure

COSO states that there are five interrelated components of an internal control structure, and that these apply to all agencies, irrespective of size, though smaller agencies are likely to implement them in a less formal manner. These components are outlined below, with references to related Information Sheets:

- control environment – this sets the tone for the agency, providing the foundation for all other components of internal control. It includes integrity, ethical values and the competence of all officers and staff (refer to *Information Sheet 2.2 – What is a Control Environment?*).
- risk assessment – this is the identification and analysis of relevant risks, internal and external, to the achievement of government and agency goals (refer to *Information Sheet 3.1 – Risk Identification and Management*).
- internal control activities – these are the policies and procedures established by an agency and documented in the financial management practice manual to address the risks and help in the achievement of goals (refer to *Information Sheet 2.3 – What are Internal Controls?*).
- information and communication – pertinent information must be identified, captured and communicated in a form and timeframe that enables officers and staff to carry out their responsibilities (refer to *Information Sheet 5.1 – Management Reporting*).
- monitoring – internal control systems must be monitored to assess the quality of the internal control system over time (refer to *Information Sheet 4.1 – Monitoring and Assessment of Internal Controls*).



Types of internal controls

Agency internal controls are classified as financial internal controls and non-financial internal controls.

Financial internal controls (for example, payment approvals and authorisations, financial delegations, processing of remittances, banking requirements, and accounting reconciliations) assist in ensuring that an agency's financial transactions are appropriately authorised, processed and recorded.

Non-financial controls include controls and processes applicable to agency information systems and operational requirements that are used to achieve agency objectives and delivery of agency services, and include:

- internal accounting controls, which are guidelines and procedures related to the keeping of books and records, and
- administrative accounting controls, which are those controls that ensure agency transactions are processed in accordance with management's general or specific authorisations.

While this Information Sheet is primarily concerned with financial controls and processes, many agency controls and processes are unrelated to financial matters and would benefit from the same compliance processes detailed in this Information Sheet.

Scope of internal control activities

Each agency is responsible for developing a system of internal controls that is specific to its operations and that includes procedures or mechanisms that:

- review risk profiles on a regular basis
- ensure compliance with internal policies and procedures
- ensure compliance with applicable laws, regulations and accounting standards
- reduce the possibility of error, fraud or other irregularities through processes such as delegations of authorities and segregation and rotation of duties, and
- ensure that activities underpinning agency objectives are complete, correctly recorded in the agency's financial system and ultimately reflected in the agency's financial and performance reports.

Agencies are encouraged to draw on the experience and expertise of other agencies as appropriate, including the Queensland Audit Office, when establishing new processes or reviewing existing systems.

Section 15 of the Standard provides that each agency must establish systems to manage its financial resources. Specific Information Sheets have been prepared to assist agencies in meeting their obligations under this section of the Standard.

Management responsibility

Management has an obligation to ensure that internal control processes are cost-effective and consistent with agency operational needs, and recognise changing operational requirements. To achieve this goal, management should:



- recruit staff with skills sufficient to deliver agency objectives
- provide appropriate training to staff
- undertake regular reviews to ensure that internal controls are continuing to achieve the stated objectives cost-effectively
- implement mechanisms to review existing processes, or implement new processes, resulting from ongoing operational and risk assessment reviews, and
- ensure financial management practice manuals and other agency-specific documentation are up to date and reflect current agency operations and objectives.

Related resources

- Committee of Sponsoring Organisations of the Treadway Commission
<http://www.coso.org>
- Australian National Audit Office
<http://www.anao.gov.au>
- International Federation of Accountants
<http://www.ifac.org/>

Further information

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Information Sheet 3.3 – Information and Communication Technology (ICT)

Introduction

The development and implementation of internal controls and systems surrounding agency information and communication technology (ICT) and records management functions are fundamental to the efficient, effective and economical delivery of agency outputs and policy objectives.

Well-designed control systems will allow agencies to meet their obligations under applicable legislative and policy mandates. Internal controls developed and implemented by agencies should be appropriate to the size and complexity of their operation and structure.

The following elements should be addressed:

- establishment of an appropriate information records management and security culture
- implementation of security measures commensurate with the value and sensitivity of the information
- ensure accountabilities and methodologies to control business change are in place to maximise benefits whilst minimising negative impacts
- ensure adequate controls are incorporated into operational functions which promote seamless integration prior to implementation, and
- adherence to all legal and legislative requirements.

This Information Sheet is designed to assist agencies in the development, application and review of internal controls and systems appropriate to ICT operations.

Legislative requirements

Section 27(3)(a) of the *Financial and Performance Management Standard 2009* (the Standard) states that, in developing and implementing the financial information management system, agencies must apply the mandatory principles contained in the information standards⁷ and policies issued under the Queensland Government Enterprise Architecture (QGEA) and managed by the Queensland Government Chief Information Office (QGCIIO). QGCIIO provides Queensland Government agencies with guidance and support on improving the delivery of Queensland Government services and developing best practice approaches to ICT management.

Section 27(4) also provides that when introducing or significantly amending the agency's financial management system, the accountable officer or statutory body must consult with:

- the head of internal audit for the department or statutory body

⁷ Please note the term 'information standards' is a legacy term and it is being progressively replaced by the QGCIIO with 'policy' which is equivalent in function. Both the mandatory principles contained in the information standards and requirements contained in the policies under the QGEA are to be applied.



- the authorised auditor for the department or statutory body
- the chief finance officer of a department, and
- the person responsible for the financial administration of a statutory body.

Agencies also must have regard to applicable requirements contained in the *Information Privacy Act 2009*, the *Right to Information Act 2009*, and the *Public Records Act 2002*.

QGEA Information Standards and policies

The QGCIO has developed the QGEA to help Queensland Government agencies provide effective and efficient ICT services. The QGEA is the collection of ICT policies and associated documents that provide guidance in agency ICT initiatives and investments to improve compatibility and cost-effectiveness across Government. The Information Standards and policies, published by QGCIO, incorporate the rules and recommended practice with regard to Queensland Government information and ICT resources.

Information Standards and policies are subject to regular review, and may be replaced or withdrawn from time to time. Agencies should refer to the QGCIO website for the latest versions of Information Standards and policies, such as:

- ICT Resources Strategic Planning (IS 2)
- Procurement and Disposal of ICT Products and Services (IS 13)
- Information Security (IS 18)
- Information Access and Use (IS 33)
- Metadata (IS 34), and
- Recordkeeping (IS 40).

Benefits

Application of efficient and effective internal controls and systems leads to:

- strengthened internal ICT controls enhancing the operational health of agencies
- improved data confidentiality, integrity and availability including the ability to prevent and identify potential breaches of systems
- increased accuracy and timely reporting on financial and operational matters
- improved ability to implement regulatory requirements
- improved decision-making and optimised use of resources in the delivery of agency services
- better identification of and increased responsiveness to risks and issues as they arise
- increased efficiencies through encouraging greater collaboration within agencies, and
- potential to break down 'silos' within agencies through better understanding of the whole of agency operations.



Scope of internal control activities

The scope of ICT internal control activities should reflect the size, nature and complexity of the agency's systems and processes. The control activities should recognise the following broad functions, and be developed and implemented accordingly:

- Data – ensure complete, timely and accurate processing of all correctly authorised data
- Application – test the operation of ICT applications to ensure that the applications correctly accept, manipulate, store and provide data and information to users
- Security and access – regulate the operation of the ICT system by agency users, management and others, and ensure external parties cannot breach network security
- Accounting – monitor processing controls applicable to the recording of financial and other transactions, complying with general accounting principles, specific regulatory requirements and agency management needs
- Management and administration – monitor activities in overseeing the operations of ICT-related activities
- New system implementation – governance structures established with accountability for delivering project outputs and beneficial outcomes, capable and appropriately skilled project managers, project and program management methodologies which include requirements for comprehensive reporting structures, sufficient parallel testing of systems prior to implementation, change management focused on seamless business integration and contingency planning, and
- Business continuity – processes and plans need to be in place (and regularly tested) to ensure continuity of business following natural disasters or other external events.

Management of ICT systems

It is suggested that the following matters be considered in the design and management of an agency's system of internal controls and processes.

- Appointment of a chief information officer (or equivalent) with responsibility for:
 - compliance with the Queensland Government Enterprise Architecture, and Information Standard 2 *ICT Resources Strategic Planning*
 - establishment and use of effective ICT and records management governance arrangements
 - ICT operations, maintenance and policy direction
 - development and implementation of appropriate and timely processes to validate new procedures, applications and upgrades including key risks and issues
 - ensuring system capacity restraints are identified and managed in a timely way
 - identification and allocation of risks which are then managed in a consistent manner throughout the agency



- development of appropriate and commonly understood mitigation strategies including incident response
- business continuity planning following natural disasters or other external events (such as power outages), including, for example, ranking the importance of various systems to determine the order of system recoveries, and
- developing an IT management framework which defines leadership, accountability, roles and responsibilities, information requirements, organisational structures, and practices to avoid breakdowns in internal control and oversight.
- System security should incorporate functions that:
 - comply with the principles identified in Information Standard 18 – Information Security
 - ensure user password systems conform to current industry standards, are regularly changed, and are restricted to agency authorised users
 - use up-to-date antivirus software and firewall applications
 - review, update and document hardware and software applications to aid in the timely recovery of ICT functions in the event of a partial or total system failure, and
 - block, report, escalate and action any attempted or unauthorised access to an agency’s database.
- Operational procedures should require:
 - timely change/removal of user access (for example, change in role or termination of an employee)
 - regular operational reviews and communication with hardware and software vendors
 - the establishment of approval and delegation levels
 - the implementation of effective segregation of duties
 - the use and regular review of audit trails and control registers, and
 - the establishment of reasonable tolerances in processing applications that accept minor variations in data processed (for example, small variations in price between goods ordered and goods invoiced following delivery).
- Information management considerations should:
 - be consistent with requirements and provisions of the *Information Privacy Act 2009*, the *Right to Information Act 2009*, and other appropriate legislation or regulation, and
 - ensure that confidential information is not accessible to other than authorised users in the event of theft or damage to portable ICT items (for example, laptops, mobile phones and the like).

Effectiveness of ICT internal controls

In assessing the effectiveness of internal controls and systems, agencies should:

- regularly assess their compliance with the Queensland Government Enterprise Architecture
- ensure up to date information is available to senior management to ensure timely and effective decision support



- ensure that internal controls and processes are in alignment with information security classifications established in the Queensland Government Information Security Classification Framework (QGISCF)
- implement appropriate review processes to assess the effective operation of ICT-based systems
- establish and monitor appropriate user access and security levels for compliance with policy
- assess the frequency and effectiveness of systems backups, system changes, upgrades, and use of licensed software
- when disposing of ICT assets, have regard to the sensitivity of data remaining on the asset, and develop appropriate data removal and asset disposal strategies
- ensure there are regular updates of software including antivirus software
- implement, and ensure adherence to, an agency ICT code of conduct, and
- disseminate lessons learned to ensure common risks and issues are identified early and effectively managed.

Management and removal of information

Queensland Government agencies have responsibility for records, ICT and information assets. The responsibility extends to providing access to appropriate stakeholders, managing the assets across the whole of their life cycle, and ensuring that appropriate controls and processes are maintained (such as security, integrity, correctness, consistency, privacy, confidentiality and accessibility).

Additional information and guidelines on the management of ICT and information assets can be found in *Information Standard 44 – Information Asset Custodianship*.

When a decision is made by an agency to dispose of an asset, it is a requirement to ensure that all information and records are appropriately managed and removed from the asset prior to disposal. The following Information Standards should be referred to by agencies when disposing of ICT or information and records management assets:

- Procurement and Disposal of ICT Products and Services (IS 13)
- Information Security (IS 18)
- Retention and Disposal of Public Records (IS 31), and
- Recordkeeping (IS 40).

Agencies should also ensure that the provisions of the *Information Privacy Act 2009* and the *Public Records Act 2002* are recognised when developing controls and processes for the disposal of records, ICT and information assets. For more information, refer to the *General Retention and Disposal Schedule for Administrative Records* as published by the Queensland State Archives.



External ICT support

Agencies must comply with the Queensland Procurement Policy for the procurement of ICT products and services. Procurement should occur as part of a planned strategy and be managed in an effective manner that maximises benefits to the agency and minimises or mitigates risk (refer to *Information Sheet 4.4 – Outsourced Arrangements*).

Where an external service provider is engaged to provide ICT services, appropriate internal control activities should include:

- use of mandated Government Information Technology Contracting (GITC) Framework contractual terms and conditions for the procurement of ICT products and services
- use of suppliers who have signed a GITC Framework agreement with the Department of Housing and Public Works
- clear definition of the service provider's activities/services
- development of internal agency controls to verify the accuracy of data processed, and
- assessment of the effectiveness of the service provider's systems and data integrity processes (backups, disaster recovery plans, etc.).

Related resources

- Queensland Government Chief Information Office
<http://www.qgcio.qld.gov.au>
- General Retention and Disposal Schedule for Administrative Records, Queensland State Archives
<http://www.archives.qld.gov.au/Pages/default.aspx>
- Government Information Technology Contracting (GITC) Framework
www.hpw.qld.gov.au
- Project Assessment Framework Policy Overview, Queensland Treasury
<http://www.treasury.qld.gov.au/office/knowledge/docs/index.shtml>

Further information

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Information Sheet 3.4 – Delegations

Introduction

Under the *Financial Accountability Act 2009* (the Act), the accountable officer or statutory body is responsible for the efficient, effective and economical operation of the agency. To achieve this practically, the accountable officer or statutory body will need to delegate certain functions or responsibilities to other departmental or statutory body staff.

Section 76 of the Act states that the accountable officer may delegate their functions to an appropriately qualified public service employee or other employee of the State. While the provisions of the Act do not apply to statutory bodies, a statutory body's enabling legislation may contain similar provisions relating to the delegation of functions.

Where delegations are made by the accountable officer or statutory body, responsibility for decisions made by those delegated officers will remain the responsibility of the accountable officer or statutory body.

This Information Sheet is designed to assist agencies to meet their obligations under the Act in relation to the delegation of functions and responsibilities.

Accountable officer delegations (departments only)

Delegations under the Act only apply to financial functions detailed in the Act. Other Acts may specify additional functions that an accountable officer may delegate, for example, the *Public Service Act 2008* and the *Acts Interpretation Act 1954*.

Section 76 of the Act allows an accountable officer to delegate their functions to "an appropriately qualified public service employee or other employee of the State". Functions cannot be delegated to contractors or consultants, and subdelegation is not permitted.

An accountable officer can delegate functions to officers within a statutory body where a statutory body represents the State (as expressly stated in the statutory body's enabling legislation). The accountable officer remains responsible for the actions of the officers of the statutory body in the exercise of their delegated functions.

An accountable officer may place restrictions or conditions on any delegation given (for example, approval of certain types of transactions, up to specific amounts, or for specific cost centres).

Project commencement approval

While the legislation provides that the accountable officer is responsible for approving (or delegating the power to approve) all expenditure and projects, Government policy restricts this.

Departments are required to obtain Governor in Council approval prior to commencing a high-value project (as defined by the policy). The policy can be obtained from

<http://www.treasury.qld.gov.au/office/knowledge/docs/project-commencement-approval-policy/index.shtml>



Statutory body delegations

The Act does not provide a statutory body with the power to delegate functions or responsibilities. The power of delegation will result from the statutory body's enabling legislation, and it must be an express power (that is, explicitly stating delegations are permitted).

Where delegations are permitted, either the statutory body itself or the enabling legislation may place restrictions or conditions on any delegation given.

Creating and assigning delegations

Generally, delegations are assigned to positions. Alternatively, delegations may be assigned to individual officers and can only be exercised by that officer. In this situation, the delegated power cannot be sub-delegated.

Where an accountable officer or statutory body delegates functions to an individual or position in another public sector agency, delegation parameters must be clearly and unambiguously stated and understood.

When creating and assigning delegations, the following should be considered:

- the need for delegations based on the position and its responsibilities
- the level of risk associated with the provision of a delegation
- operational issues such as accessibility for regional staff, emergency situations, timing to obtain approval, etc
- the types of delegations to be assigned
- the appropriate financial cap or other limitations
- whether to grant the delegations to an individual or a position, and
- appropriate segregation of duties.

Types of delegations

There are no specific types of delegations which an agency must establish. These will be determined based upon the 'business' of each agency. Types of delegations, with examples, that are traditionally assigned by accountable officers and statutory bodies include:

- procurement (authority to sign requisitions, purchase orders)
- expenditure (authority for operational expenditure, write-off losses or assets)
- payment (sign cheques, authorise electronic funds transfers)
- administrative (correspondence, approve records disposal), and
- human resources (approve role descriptions, advertising vacancies, appointments).

In determining the legislative authority that underpins the delegation process, agencies should refer to the *Financial Accountability Act 2009*, and other applicable legislation, such as the *Public Service Act 2008*.



Delegation limits

Senior agency officers may be granted higher delegation limits based on their position, skills and experience than, for example, less senior agency officers.

Delegation limits may also differ depending upon the delegation type. For example, an officer may have a delegation of \$200,000 to approve recurrent expenditure, but only \$100,000 to approve the purchase of assets.

Record of delegations

Each agency should maintain a record of all currently approved delegations in an appropriate register which should be linked to the agency's financial management practice manual.

The record of delegations should include:

- the delegation type
- list of positions/officers holding each delegation type
- dollar or other thresholds for each delegation type, and
- any restrictions/limits placed on individual delegates or types of delegations.

The record of delegations should be readily accessible to all officers within the agency. An agency may consider entering delegated agency staff specimen signatures in the register or retaining the specimen of signatures separately to the record of delegations, to enable relevant personnel to verify signatures on source documentation. If adopted, appropriate controls will need to be implemented to ensure there is no fraudulent or inappropriate use of the signatures.

Review of delegations

Delegations should be regularly reviewed (at least annually, unless there have been significant changes to the agency, in which case it should be more frequently) to ensure they remain appropriate, and changed or withdrawn as required (for example, on the change in officers appointed to various positions, or in the event of an agency restructure). Agencies should ensure processes are in place to withdraw or change delegations if individual officers change positions.

Any review should include an assessment of whether officers with a delegation actually need it for their normal roles and responsibilities. The more staff with the ability to authorise expenditure, the greater the risk of inappropriate payments and the more difficult it is to maintain controls to ensure payments are appropriately and correctly authorised.

Further information

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Information Sheet 3.5 – Revenue Systems

Introduction

Section 17 of the *Financial and Performance Management Standard 2009* (the Standard) requires each accountable officer and statutory body to manage revenue through an effective revenue management system, and to set charges for goods or services provided by the agency. In addition, the revenue management system must promptly collect, manage and record information about revenue, and provide for timely writing off of revenues due and unpaid.

Examples of major types of revenue for public sector agencies include:

- appropriations
- grants
- taxes, fees and fines, and
- user charges.

This Information Sheet is intended to assist agencies to meet their obligations under the Standard, and does not provide guidance on the reporting of revenues in agencies' financial statements. The *Financial Reporting Requirements for Queensland Government Agencies* (FRRs) published by Queensland Treasury deals with agency obligations in this regard.

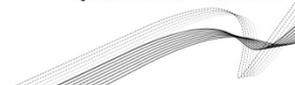
Agency fees and charges

While authority for setting fees and charges is an agency function, the calculation and application of such fees and charges must be in accordance with approved whole-of-Government policies. These policies include the *Principles for Fees and Charges* (applicable to departments (except commercialised business units) and statutory bodies), and the *Full Cost Pricing Policy* (applicable to commercialised business units and significant business activities). Both of these policies are published by Queensland Treasury.

Section 18 of the Standard provides that agencies must have regard to the full cost of providing goods and/or services, though a charge may be less than the full cost if the accountable officer or statutory body is satisfied the lower charge is appropriate (for example, to achieve social welfare, equity or economic objectives).

Section 18 also provides a number of factors that an agency must consider in identifying the goods or services for which users are to be charged.

Given that there must be regard to the full cost of providing goods and/or services, it is important for agencies to have an understanding of their cost structures, and these should be documented and regularly reviewed to ensure under or over charging does not occur. Refer to the *Principles for Fees and Charges* for additional information.



Internal controls and processes

In fulfilling the revenue obligations of the Standard, factors to be considered include:

- identification of agency revenues
- collection and follow up of agency revenues
- locations or functions
- agency credit sales of goods and services, and
- agency specific requirements documented in financial management practice manuals.

Identification of agency revenues

Internal controls and processes should be implemented that correctly identify revenues, allocates revenue to the appropriate general ledger accounts, and ensure revenues are completely and accurately receipted and banked on a timely basis.

Collection of agency revenues

In the design and implementation of internal controls, agencies must consider the types of receipts they collect, as well as the specific risks attached to their collections, including:

- Cash
 - security, for example, when collecting cash, holding cash and depositing funds at bank
 - regular banking of agency takings, with consideration given to:
 - security service engagement for the physical deposit of funds, where material
 - varying times when bank deposits are made
 - use of pre-numbered receipts or effective electronic audit trail
 - regular balancing of till funds, and removal of surplus funds to a secure area, and
 - where funds are banked by a field employee, monitoring that all funds have been correctly accounted for.
- Credit cards
 - credit card details, including expiry dates, are checked at the time of the transaction
 - warning bulletins, advice of scams or other illegal activities are communicated to agency staff, and
 - appropriate and robust processes are implemented to cover the operation of manual imprint machines.
- Cheques
 - stamped 'Not Negotiable'
 - payee name confirmed as the name of the receiving agency
 - complete and accurate details recorded on bank deposits, and
 - accepted, if appropriate, only after prior arrangements have been made.



- EFTs and bank transfers
 - processed promptly from bank statements or EFT files
 - matched to originating documents (for example, invoice number), and
 - applied to correct account codes (both subsidiary ledger and control accounts).

Locations or functions

Internal controls and processes should also be developed and implemented to effectively account for the location or functions that generate agency revenues, and while not exhaustive, would include:

- Account customers
 - pre-numbered sales invoices prepared, checked and despatched
 - customer account reconciliations performed, and
 - follow up on slow or non-payment of outstanding invoices.
- Agency 'front office'
 - daily reconciliation of takings performed
 - ongoing staff training in front office processes
 - remittances cleared daily, and
 - provision of secure storage for remittances received.
- Remote locations
 - returns/reconciliations checked, and
 - appropriate collection/banking arrangements in place.
- Collection arrangements with third parties
 - for example, where a third party such as Australia Post collects revenues on behalf of an agency, appropriate internal controls and processes should be implemented such as:
 - written operating manuals
 - documented audit trails, reconciliation processes and banking functions, and
 - internal audit assessment of the effectiveness of established controls and processes.
- Bank account transactions
 - bank transactions promptly balanced and discrepancies followed up, and
 - bank reconciliations are regularly performed, completed in a timely manner, reviewed and approved by an appropriately delegated agency officer (at least monthly).

Agency credit sales of goods and services

While agencies must consider potential risks associated with handling cash and other negotiable instruments, effective credit management is also fundamental to underpinning an effective revenue management system. For example, risks are minimised where functions such as credit checks, establishment and maintenance of set credit limits, follow up of outstanding debtors and regular review of debtors aged trial balances are incorporated into agency internal controls and processes.



If it is determined that an amount is uncollectible, it should be written off in a timely manner. Write-offs should only be authorised by officers holding properly delegated authority as per the agency's instrument of financial delegations.

Note, however, only the Treasurer has the power to approve the write-off of administered amounts, as outlined in section 21 of the *Financial Accountability Act 2009*, unless the Treasurer has delegated this power to an accountable officer pursuant to section 48 of the same Act.

Financial management practice manuals

Financial management practice manuals (FMPMs) form the foundation for efficient, effective and economical management of an agency's revenue management system. FMPMs should completely and accurately reflect current financial controls and processes, and provide precise and concise directions to the agency on the various processes controlling agency revenue functions (refer to *Information Sheet 3.14 – Financial Management Practice Manuals*).

Related resources

- Financial Reporting Requirements for Queensland Government Agencies, Queensland Treasury
<http://www.treasury.qld.gov.au/office/knowledge/docs/fin-reporting-req/index.shtml>
- Full Cost Pricing Policy, Queensland Treasury
<https://www.treasury.qld.gov.au/publications-resources/pdfs/full-cost-pricing-policy.pdf>
- Gifts and Benefits, Directive No. 22/09, Public Service Commission
<https://www.qld.gov.au/gov/directives-policies-and-guidelines>
- National Competition Policy publications, policies and guidelines, Queensland Treasury
<http://www.treasury.qld.gov.au/office/knowledge/docs/ncp/index.shtml>
- Principles for Fees and Charges, Queensland Treasury (restricted access)
<http://www.treasury.qld.gov.au/office/knowledge/docs/fees-and-charges/index.shtml>

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.



Information Sheet 3.6 – Expense Management Systems (excluding HR)

Introduction

An effective expense management system ensures that only appropriate and approved expenses are paid by agencies, and that applicable statutory, regulatory, financial and reporting requirements are met.

This Information Sheet is intended to assist agencies to meet their obligations under the *Financial and Performance Management Standard 2009* (the Standard) in relation to systems to manage agency expenses. It does not provide guidance on the reporting of expenses in agencies' financial statements. The *Financial Reporting Requirements for Queensland Government Agencies* (FRRs) published by Queensland Treasury details agencies' obligations in this regard.

Regulatory requirements

The Standard mandates requirements applicable to an agency's expense management system. The requirements encompass:

- section 19 – Expense management
- section 20 – Record of special payments
- section 21 – Loss from offence or misconduct, and
- section 22 – Other losses.

The *Crime and Corruption Act 2001* provides that a public official has a duty to notify the Crime and Corruption Commission (the Commission) of any corrupt conduct as provided under:

- section 38 – Duty to notify commission of corrupt conduct, and
- section 39 – Duty to notify is paramount.

Expense management

Expense management involves a number of processes, including tendering, requisitions, purchase orders, goods receipt and payment. There are also a number of payment methods available, such as cash, cheque, corporate card, petty cash and electronic funds transfer. Each of these payment methods have differing risks, costs and benefits attached. Staff should be provided with direction as to what procurement method is appropriate in various circumstances.

There are a number of factors critical to an effective expense management system, including ensuring that all expenses:

- are promptly and accurately identified
- are approved by agency personnel with appropriate authority



- are incurred in the name of the entity for lawful and legitimate purposes only
- represent value for money
- have been subject to competitive and ethical procurement arrangements and processes
- relate to goods and/or services as requested and these have been received or provided to the agency
- are paid when due and within terms (refer to the Queensland Government Late Payment Policy), and
- are accurately recorded and reported in accordance with prescribed requirements.

Management should also implement monitoring controls to highlight or identify irregularities in the types or patterns of expenditure incurred by the agency, for example:

- ongoing data analysis to identify unusual transactions or trends for follow up, obtaining adequate explanations from relevant personnel/management and corroborating those explanations with alternative sources
- circulating expense reports to cost centre managers for confirmation and follow-up of discrepancies, again obtaining adequate explanations and corroborating those explanations with alternative sources, or
- reviewing daily logs to identify any unusual activity in the agency's accounting information systems.

Special (discretionary) payments

Section 72 of the *Financial Accountability Act 2009* enables an accountable officer to make special payments. The *Financial Accountability Act 2009* defines special payments as including ex-gratia expenditure and other expenditure that is not under a contract.

Special payments should only be made after all possible alternative avenues for redress have been explored. It may be appropriate to obtain legal advice to determine whether a legislative provision is more appropriate than a special payment.

Such payments could be made for any number of reasons, such as waiving a debt, compensating an individual for the impacts of Government or administrative decisions, or in recognition of a moral obligation.

One example of a special payment would be compensation paid to a third party for property resumed as part of a major infrastructure project undertaken by the agency. An individual does not necessarily need to have suffered a loss to receive a special payment.

Given the nature of special payments (that is, there is no legal obligation to make the payment), it is particularly important to ensure due process is followed. These payments may be subjected to an increased level of public scrutiny and therefore must be publicly defensible.

Each agency should consider the types of special payments and specific circumstances under which they may be deemed appropriate, and develop a process for how special payments are to be managed and processed. At a minimum, a department's financial management practice manual should address:

- the types of discretionary payments the agency may make.
- the process for assessing requests for special payments. Issues may include the area/s authorised to deal with special payments, the level of consultation that should be undertaken, how/when previous requests can be used as a guide, etc.



- There may also be a discussion about when the making of a special payment is not considered appropriate, for example, if the requested payment would have the effect of supplementing capped payments set by other specific legislation, in circumstances where that legislation expresses the clear intention that particular payment levels are not to be exceeded in any circumstances.
- who has the delegated authority under an Instrument of Delegation to approve the payments. It is suggested that all special payments should be reviewed and endorsed by the chief finance officer.
- how the amount of any payments are to be determined or calculated.
- when conditions should be attached to special payments, for example, conditions relating to eligibility to receive payments or the use of payments received.
- when advice should be obtained in the assessment of special payments, including legal advice or advice from other external experts. Agencies should consider seeking legal advice before making any special payments, particularly for any sensitive or unusual payments. This has the benefit of ensuring an independent assessment of the appropriateness of payments before they are made.
- the documentation that is retained to substantiate the payment. The supporting documentation for any special payment must demonstrate how the amount has been determined and the criteria used to assess the appropriateness of the payment.

There may be instances where an event occurs and an agency expects to be making a number of payments for a similar purpose, for example, following a natural disaster or compensation due to a particular Government decision. In this instance, agencies are encouraged to develop and document processes to specifically address this particular circumstance, and have these approved by an appropriate officer. This process should consider who would be entitled to receive a special payment, and how amounts are to be determined to ensure equitable treatments.

It is important to ensure, however, that a particular special payment creates no expectations, interests or rights beyond the individual case.

All recipients of special payments should be informed of the reason for the payment.

Section 20 of the Standard requires an accountable officer or statutory body to keep a record of prescribed special payments (that is, those exceeding \$5,000). The record about each special payment is to include:

- the date of the payment
- the recipient of the payment
- the reason for the payment (this should very clearly articulate why the payment is being made to ensure there is no ambiguity and to ensure that payments for similar reasons can be calculated consistently and fairly), and
- the approval given for the payment (signed by and identifying the delegated officer in accordance with the agency's instrument of financial delegations).

Agencies may, and are encouraged to, include other details about the special payment that the agency considers relevant and which will enhance transparency around such payments. This may include a cross-reference to supporting documents, such as invoices, vouchers, letters of claim or other related documentation.



The *Financial Reporting Requirements for Queensland Government Agencies* requires agencies to disclose, in their financial statements, the total amount for each class of special payments. While the classes are not defined, agencies should group similar payments, and broadly explain the reasons for the payments.

Losses

Section 21 of the Standard deals with losses that result from an offence being committed, or as a result of official misconduct (in this instance, including a consultant or contractor). For example, theft of cash, other property or a fraudulent act committed by an officer of an agency would fall under this section. Any material loss (that is, over the thresholds outlined in the Standard) must be reported to the appropriate bodies (that is, the Minister, the Auditor-General and the police or Crime and Corruption Commission) as soon as practicable (but not later than six months) after detecting the loss. Ideally, notification should be made as soon as the loss is identified.

It is not necessary for there to be successful prosecution in the courts before section 21 applies. Instead, this section would apply where a loss has been identified and the accountable officer suspects that a criminal offence or official misconduct may have occurred warranting further investigation or action.

Section 22 of the Standard outlines the action to be taken where other losses may occur. Loss of an asset due to a natural disaster would be an example of a loss captured by this section.

Agencies may find it beneficial (and are strongly encouraged) to regularly review the records of all losses experienced to determine whether there are any patterns emerging, which may suggest significant internal control weaknesses in particular areas.

Sections 21 and 22 of the Standard do not limit the requirements in the Crime and Corruption Act to notify the Commission of any official misconduct. However, they do set some minimum reporting parameters for material losses. Agencies are to ensure that they remain compliant with the requirements of both the Crime and Corruption Act and the Standard when developing policies and procedures with regards to losses.

Related resources

- Fraud and corruption control guidelines for best practice, Crime and Corruption Commission
<http://www.ccc.qld.gov.au/research-and-publications/publications/prevention/fraud-and-corruption/fraud-and-corruption-control-guidelines-for-best-practice-1.pdf/download>
- Financial Reporting Requirements for Queensland Government Agencies, Queensland Treasury
<http://www.treasury.qld.gov.au/office/knowledge/docs/fin-reporting-req/index.shtml>
- Gifts and Benefits (Directive, Guideline and FAQs), Public Service Commission
<https://www.qld.gov.au/gov/directives-policies-and-guidelines>
- Leasing in the Queensland Public Sector Policy Guidelines, Queensland Treasury
<http://www.treasury.qld.gov.au/office/knowledge/docs/index.shtml>
- Queensland Government Late Payment Policy
<http://www.business.qld.gov.au/business/support-tools-grants/support/small-business/late-payment-policy>



- Queensland Procurement Policy, Department of Housing and Public Works
<https://www.qld.gov.au/gov/procurement-policy>
- Queensland Ministerial Handbook, Department of the Premier and Cabinet
<http://www.premiers.qld.gov.au/publications/categories/policies-and-codes/handbooks.aspx>
- Treasurer's Guidelines for the Use of the Queensland Government Corporate Purchasing Card, Queensland Treasury
<https://www.treasury.qld.gov.au/publications-resources/treasurers-guidelines-corporate-card/treasurers-guidelines-corporate-card.pdf>

Further information

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Information Sheet 3.7 – Human Resource and Payroll Systems

Introduction

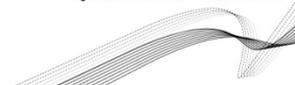
Effective internal controls supporting agency human resource (HR) and payroll systems will ensure compliance with applicable statutory, regulatory and related requirements, maintenance of a high standard of HR management and appropriate recording practices, and ultimately ensure that only appropriately entitled staff are paid for work performed for the agency.

This Information Sheet is designed to assist agencies to meet their obligations in relation to the internal controls over human resources and payroll systems. It does not provide guidance on the reporting of human resources and payroll matters in agencies' financial statements. The *Financial Reporting Requirements for Queensland Government Agencies* (FRRs) published by Queensland Treasury deals with agencies' obligations in this regard.

Human resource and payroll systems

The functions associated with effective HR and payroll systems include:

- an approvals process for authorising staff movements (employee commencement, transfer, training or leave)
- recording, filing and retrieving employee information including:
 - position descriptions, applications, staff resumes, police checks, resignation and termination notices, and exit interviews
 - staff performance appraisals
 - wage/salary review approvals, and
 - qualifications and ongoing education/training.
- payroll processing:
 - recording and reporting payroll expenses
 - remunerating agency staff, and
 - ensuring prompt follow-up of salary overpayments.
- periodically verifying payroll information with recorded employee information such as that listed above
- provision of counselling services to staff on performance, staff relations, or other matters
- periodically reporting HR-specific matters to management, such as:
 - accident and injury information
 - absenteeism statistics, and
 - employee demographics.



- procedures that ensure compliance with applicable statutory and regulatory requirements (for example, equal opportunity requirements), and
- procedures that ensure strict confidentiality of staff employment details.

Benefits of strong internal controls for HR/payroll functions

Benefits of strong internal controls include:

- management has an effective platform from which to manage all aspects relating to agency staff matters
- ready access to full and accurate staff records
- wages/salaries are correctly calculated and paid, and
- staff costs are correctly recorded in agency financial reports.

Related resources

- Information about FBT and PAYG can be located on the Australian Taxation Office website www.ato.gov.au
- Information on industrial relations directives, awards, circulars, etc. for Queensland government employees can be located on the Public Service Commission website www.psc.qld.gov.au
- Information about payroll tax can be located on the Office of State Revenue website www.osr.qld.gov.au

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

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Information Sheet 3.8 – Property, Plant and Equipment Systems

Introduction

Section 23 of the *Financial and Performance Management Standard 2009* (the Standard) requires departments and statutory bodies to implement an asset management system which provides for identifying, acquiring, managing, disposing of, valuing, recording and writing off assets.

This Information Sheet is designed to assist agencies to meet their obligations with regards to property, plant and equipment. It does not provide guidance on the reporting of assets in agency financial statements. The *Financial Reporting Requirements for Queensland Government Agencies* and the *Non-Current Asset Policies for the Queensland Public Sector* published by Queensland Treasury deal with agencies' obligations in this regard.

Asset systems

Effective asset management systems include:

- asset planning
- asset evaluations prior to acquiring, maintaining or improving a significant asset
- reviewing the performance of completed significant assets
- asset acquisitions
- recording and appropriate accounting treatment of agency assets
- revaluation schedules
- impairment testing
- asset maintenance
- asset security, and
- asset disposals.

Benefits

The benefits flowing from the implementation and operation of effective internal controls covering agency property, plant and equipment include:

- management has an effective platform from which to manage and secure all property, plant and equipment
- ready access to full and accurate records relating to the purchase, location, maintenance and disposal of agency assets



- asset values, depreciation and impairments are correctly calculated, and
- property, plant and equipment values are correctly disclosed in agency financial reports.

Asset planning

Planning by agencies for asset acquisition, replacement, upgrade and maintenance is a significant factor in an agency's ability to deliver its services in an efficient, effective and economical manner. Refer also to *Information Sheet 2.10 – Planning*.

While there are no mandated asset planning requirements under the legislative framework, it is expected that agencies with a significant asset base would consider asset planning as part of overall agency planning processes. 'Significant' assets may be defined as those assets with a high dollar value, those that provide a key role in the delivery of agency services, or those that bring potential high risk to agency operations in the event of failure.

Asset planning focuses on the life cycle of an asset and how that asset aligns with service delivery priorities of the agency and Government. An asset plan should link with other plans formulated by the agency to deliver the agency's core services. The planning process must recognise the requirements of the Queensland Procurement Policy when considering asset purchases.

An asset plan should be tailored to the particular circumstances of the agency and assess:

- the key issues that may influence the agency's requirements for assets over the medium term
- the appropriateness of existing assets in relation to the agency's operational needs
- maintenance required for existing assets, and
- the need for new assets.

Critical to the assessment of an agency's planning for asset purchase or renewal is an accurate estimate of the useful life of each asset. This determines the period over which the asset will be written off, and the depreciation expense used for budgeting, funding and financial reporting purposes.

Based on this assessment of agency need, the asset plan should identify strategies to:

- source funding (for example, property sale proceeds to purchase new assets, quarantine appropriation funding for maintenance costs, etc.)
- achieve and maintain the appropriate level of operational performance for assets, and
- dispose of assets that are surplus to the agency's requirements.

An asset plan may be a formal 'sub-plan' or, alternatively, it may be a component of the planning process that is integrated with an agency's strategic and operational plans.

Asset evaluations

Section 23(2)(b) of the Standard requires agencies to undertake an evaluation (essentially a business case) prior to acquiring, maintaining or improving a significant physical asset. The Standard also requires that a review be undertaken after the acquisition, maintenance or improvement of the asset to ensure the needs of the agency have been met after these functions have been performed.



The term 'significant asset' is not defined in the Standard. It is therefore the responsibility of each agency to determine (and document) what a significant asset is in their particular circumstances. In determining whether an asset is significant, an agency may consider:

- the dollar value of the asset item
- the materiality of the asset (quantitatively and qualitatively) to the agency asset base
- whether the asset is part of the normal business of the agency (for example, if building houses is part of the normal business of the agency, then building a low-cost house may not be a significant asset)
- the risks attached to the asset, and
- the complexity involved in acquiring, maintaining or improving the asset (for example, if it will require a number of suppliers to be involved).

While the format and content of the evaluation is at the discretion of each agency, the following factors should be considered:

- why the option chosen provides the best value for money (the option will generally involve two parts – what is to be done, and how that is to be financed)
- other options (for example, leasing) and why these were not considered appropriate
- how risks attached to the asset may be managed
- how the asset purchase, maintenance or improvement contributes to agency and Government objectives (for example, linkages to strategic plan)
- legislative requirements (for example, environmental impact assessments, etc)
- the performance measures to be used to assess the success of the acquisition, maintenance or improvement of the asset, and
- Queensland's Project Assessment Framework.

In achieving the above, it is essential that the whole-of-life costs of the asset are considered. Whole-of-life costs include costs to purchase, hold, operate, maintain and dispose of the asset in current and future years.

Initial recognition and stocktakes

Section 23 of the Standard requires an agency to have systems in place to identify and manage its assets. This incorporates two important processes – the initial recognition of an asset and regular stocktakes of agency assets.

If an asset is identified and recognised as soon as it is acquired (for example, through purchase or construction), an agency can record, monitor and manage the benefits flowing from the asset and its associated expenses in a timely manner. When initially recognising an asset, agencies should consider subsequent stocktake processes, and implement systems to assist with streamlining the processes (for example, recording information such as its cost centre, location, serial number and other identifiable details).

The frequency of stocktakes should be determined by the agency after considering the risk profile and materiality of each class of asset. Assets may be verified on a rolling basis provided all assets are verified at least once every three years.



While the primary purpose of a stocktake is to confirm the existence of assets, the asset stocktake instructions could extend the process to incorporate other asset management procedures, for example:

- updating the asset register (for example, updating location or writing off unallocated assets after seeking appropriate approval)
- assessing the condition of the asset
- assessing whether the asset is surplus to requirements, and
- testing for indicators of impairment (refer to the *Non-Current Asset Policies for the Queensland Public Sector*).

If the stocktake process is broadened to assess additional aspects of asset management, specialist staff may need to be involved, particularly with assessing the condition of the asset or testing for indicators of impairment.

Changes to asset details, such as disposals, write-offs and transfers, should occur during the normal course of business, and not rely on the stocktake process in this regard.

Related resources

- Financial Reporting Requirements for Queensland Government Agencies
<http://www.treasury.qld.gov.au/office/knowledge/docs/fin-reporting-req/index.shtml>
- Information on mandatory policies for identifying, valuing, recording and writing off property, plant and equipment can be located in the Non-Current Asset Policies for the Queensland Public Sector on the Queensland Treasury website
www.treasury.qld.gov.au/office/knowledge/docs/non-current-asset-policies/index.shtml
- Information on preparing evaluations (including Queensland's Project Assessment Framework) is located on Queensland Treasury website
<https://www.treasury.qld.gov.au/projects-infrastructure/initiatives/project-assessment-framework/index.php>
- The Public Scrapbook – Guidelines for the Correct and Ethical Disposal of Scrap and Low-Value Assets, March 2002, Crime and Corruption Commission Queensland
<http://www.ccc.qld.gov.au/research-and-publications/publications/prevention/disposal-of-assets>

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.



Information Sheet 3.9 – Asset Systems⁸

Introduction

The *Financial and Performance Management Standard 2009* (the Standard) requires agencies to efficiently, effectively and economically manage agency financial, physical and intangible assets.

This Information Sheet is designed to assist agencies in the establishment of internal controls and processes that correctly identify, classify and promptly record agency assets. These controls and processes allow management to make effective decisions regarding asset use, and assist in planning and managing the agency's resources.

The Information Sheet does not deal with assets that are included in *Information Sheet 3.8 – Property, Plant and Equipment Systems* and *Information Sheet 3.12 – Commitments and Contingencies*.

This Information Sheet does not provide guidance on the reporting of assets in agency financial statements. The *Financial Reporting Requirements for Queensland Government Agencies* and the *Non-Current Asset Policies for the Queensland Public Sector* published by Treasury deal with agencies' obligations in this regard.

Legislative requirements

Section 23(2)(a) of the Standard requires that an agency's asset management system must provide for identifying, acquiring, managing, disposing, valuing, recording and writing off assets. In addition, the following sections contain specific obligations to be met by agencies:

- section 15 requires systems to be established to manage resources (including assets and cash)
- section 23 details obligations to manage assets generally, and
- section 24 deals with cash management.

Classification of assets

Assets (excluding property, plant and equipment and contingent assets) that may be held by Queensland Government agencies include:

- cash and cash equivalents (on hand, at bank and short-term investments)
- receivables
- inventories
- investments
- intangible assets, and

⁸ Note: This information sheet does not deal with property, plant and equipment and contingencies.



- other assets such as tax assets, self-generating and regenerating assets, and loans and advances.

Cash and cash equivalents

Cash and cash equivalents are generally regarded to comprise imprest accounts, cash at bank and on hand, and funds on deposit. Section 83 of the *Financial Accountability Act 2009* (the Act) and section 31 of the *Statutory Bodies Financial Arrangements Act 1982* (the SBFA Act) allow departments and statutory bodies to establish accounts with approved financial institutions. The Treasurer's approval is required for an agency to operate an account with an overdraft facility (except for a statutory body with specific approval under its enabling legislation).

Further information about banking arrangements can be obtained from the Government Banking Unit, Queensland Treasury.

Cash on hand (usually cash floats including change and petty cash floats) must be held in a secure place and kept locked unless being used. A person should be assigned responsibility for the control and management of cash on hand and may be personally accountable for any shortages. Cash must only be paid for authorised official purposes. The cash on hand imprest amount should be reconciled on a regular basis by an independent person against cash held and unreconciled dockets, and any discrepancies investigated. The cash floats must not contain 'IOUs'.

Corporate credit cards, Cabcharge and other similar vouchers should be considered as cash equivalents, and be subject to the same controls and processes that apply to cash on hand and imprest accounts.

Unclaimed moneys

Under the *Public Trustee Act 1978*, moneys are to be forwarded to the Public Trust Office after they have been unclaimed for two years. Information about how to lodge unclaimed moneys is available on the Public Trustee's website at <http://pt.qld.gov.au/other-services/unclaimed-money/>. For advice about unclaimed moneys, email helpaccounting@treasury.qld.gov.au.

Receivables

Accounts that are reported as 'receivables' will vary between agencies. Items generally categorised as a receivable can be, but are not limited to:

- trade debtors, being moneys receivable from agency customers for goods or services invoiced by the agency, and not yet paid by the customer
- grants receivable, being funds receivable under grant arrangements that remain unpaid to the agency
- balances owing by other departments or statutory bodies for goods or services provided, and
- other funds that remain payable, at the reporting date, to an agency arising out of contracts or agreements negotiated with other parties.

Every agency must develop a policy for the control and management of all items recorded as receivables. The policy should include regular reconciliation of all 'receivables' accounts, follow up of outstanding or reconciling items and, where necessary, writing off uncollectible balances after approval from an appropriately authorised agency officer.

Departments and statutory bodies must also implement processes for a review of assets classed as 'receivables', to satisfy both impairment testing criteria applied in determining fair value of such assets, and substantiation of the asset and its ultimate collectability (refer to *Information Sheet 3.5 – Revenue Systems*).



Inventories

Inventories can comprise assets which are:

- held for sale
- held for distribution (for no or nominal consideration)
- in the process of production for sale or distribution (that is, raw materials or work in progress (WIP)), or
- materials or supplies which are consumed by the agency in the ordinary course of business.

Agencies with significant inventory holdings should implement appropriate systems to record inventory transactions. Additionally, inventories should be securely held, access should be restricted to authorised staff, stocktakes should be performed regularly by staff independent of the inventory management function, and test checks should be made against inventory control records, with discrepancies immediately investigated.

Investments

Investments include assets such as financial assets, including derivatives and bonds, and investments in controlled entities.

Entering into and managing investments may involve risk. Where complex transactions are proposed, agencies should seek professional advice, particularly where a contract may contain embedded derivatives.

Division 6 of the Act details the legislative obligations applicable to departments entering into derivative transactions, specifically:

- Section 85 prescribes that departments may only enter into a derivative transaction with the Treasurer's approval, and only if the derivative transaction is to hedge against a risk to which a department is or will be exposed.
- Section 86 of the Act requires departments to report to the appropriate Minister about derivative transactions administered by the department.

Section 59 of the Standard prescribes the details to be reported to the appropriate Minister on derivative transactions entered into.

Further, under sections 87 and 88 of the Act, a department may only make an investment or form or become a member of a company with the Treasurer's approval (unless the department has an express power under another Act to make an investment).

Sections 53 to 57 of the SBFA Act prescribe that a statutory body may only enter into a derivative transaction with the Treasurer's approval:

- if the body is allowed under the *Statutory Bodies Financial Arrangements Regulation 2007* (SBFA Reg), and
- if it is to hedge against a risk which the statutory body is or will be exposed.

The SBFA Act and SBFA Reg also contain requirements about reporting on derivatives to the Treasurer and the relevant Minister.

Statutory bodies should refer to the SBFA Act and the enabling legislation of the body to determine whether it has the authority to make an investment or form or become a member of a company.



Section 64 of the Act provides that a department or statutory body must obtain the Treasurer's approval before divesting itself of a gifted or bequeathed investment. A statutory body may be exempted from this requirement if the Treasurer is satisfied that it has appropriate processes in place for divesting itself of such investments (for example, if it has a committee to specifically oversight the management of gifted or bequeathed investments).

Intangible assets

Intangible assets potentially held by agencies include software and intellectual property.

The Queensland Government Chief Information Office (QGCI) has released guidance to assist agencies with the management of software.

Agencies are responsible for the management of intellectual property owned or used by the agency, in accordance with all relevant legislation, policies and guidelines, including the *Queensland Public Sector Intellectual Property Principles*.

Security over assets

Controls to safeguard assets aim to protect physical and non-physical assets and minimise losses from both internal and external events. Types of control techniques may include:

- physical security, for example, locking premises, personal offices, and filing cabinets
- using security cameras and alarms
- restricting access to assets
- prohibition on personal use of official assets, and
- ensuring proper management supervision.

Related resources

- Government Banking Unit, Queensland Treasury
<http://govbanking.govnet.qld.gov.au/>
- Public Trust Office
www.pt.qld.gov.au
- Queensland Public Sector Intellectual Property Principles
<http://www.qld.gov.au/dsitia/assets/documents/ip-principles.pdf>
- Investment Policy Guidelines for Statutory Bodies 2012
<https://www.treasury.qld.gov.au/publications-resources/investment-policy-guidelines/investment-policy-guidelines.pdf>



Further information

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Information Sheet 3.10 – Liability Systems

Introduction

Section 15(1)(e) of the *Financial and Performance Management Standard 2009* (the Standard) requires each department and statutory body to establish a liability management system that allows for the efficient, effective and economical management of liabilities incurred by a department or statutory body.

This Information Sheet is designed to assist agencies with regards to internal controls and processes in the management of liabilities incurred in the delivery of agency objectives and services. *Information Sheet 3.12 – Commitments and Contingencies* also provides additional details on the management of agency liabilities.

This Information Sheet does not provide guidance on the reporting of liabilities in agencies financial statements. The *Financial Reporting Requirements for Queensland Government Agencies* (FRRs) published by Queensland Treasury deals with agencies' obligations in this regard.

Legislative requirements

Section 25 of the Standard states that an agency's liability management system must provide for:

- identifying, incurring, measuring, managing, satisfying and recording liabilities
- identifying, monitoring, recording and reporting commitments for capital expenditure, and
- ensuring compliance with *Leasing in the Queensland Public Sector – Policy Guidelines*⁹ published by Queensland Treasury.

Departments must also comply with the following provisions of the *Financial Accountability Act 2009* (the Act):

- section 71: which requires the Treasurer's approval for an accountable officer to borrow funds¹⁰, and
- section 84: which requires the Treasurer's approval for an accountable officer to arrange an overdraft for a departmental financial institution account.

Statutory bodies must also comply with provisions under their enabling legislation and applicable provisions of the *Statutory Bodies Financial Arrangements Act 1982* (SBFA Act), such as:

- section 21: loans from Queensland Treasury Corporation
- section 31: banking arrangements and Treasurer's approval to operate overdraft facilities, and
- section 34: Treasurer's approval for borrowings.

⁹ Name of policy changed to *Queensland Leasing Approval Policy for Public Sector Entities*

¹⁰ Section 71 was amended in October 2015 by *Appropriation Act (No.2) 2015*. Prior to the amendment, section 71 stated "...a department may, under a Treasurer's approval, borrow amounts for the State from the Queensland Treasury Corporation." The amendment removed reference to borrowing only from QTC. The intention is that the borrowing of funds (i.e. traditional borrowings) will continue to occur with QTC (except in exceptional circumstances) and only with the Treasurer's approval. Departments, with the Treasurer's approval, can engage with parties other than QTC for the purpose of obtaining a finance lease or entering into any other financial arrangement which constitutes a borrowing.



Types of liabilities

Liabilities incurred by agencies may include the following:

- amounts owing to suppliers for the supply of goods and services, for which an invoice may, or may not, have been received
- clearing accounts that temporarily record transactions that will be transferred to appropriate general ledger accounts, or where funds are held on behalf of another agency
- revenue received in advance of goods or services being supplied or provided
- entitlements payable to employees, such as annual leave and long service leave (not applicable to agencies participating in the central schemes)
- borrowings
- provisions set aside to meet particular obligations (for example, taxation), and
- amounts payable under contracted lease arrangements.

Internal controls and processes

When designing liability internal control systems, agencies must be aware of and include requirements contained in the following:

- *Leasing in the Queensland Public Sector – Policy Guidelines*¹¹ which apply where agencies enter leasing arrangements, for other than vehicle or property leases.
- *Annual Leave Central Scheme Guidelines*, which operates to centrally fund annual leave obligations in the government sector.
- *Long Service Leave Central Scheme Guidelines*, which covers the long service leave liability for all public service employees and other employees of its member agencies.
- State Borrowing Program (SBP), which applies to all departments and statutory bodies.

Controls and processes to be implemented to ensure that only appropriately authorised transactions are reflected in the liability management system would include, for example:

- appropriate delegation levels
- appropriate segregation of duties
- all contractual arrangements are entered into in the name of the agency
- proper authorisation of agency documents such as contracts, purchase orders, suppliers' invoices, and
- preparation and regular review of agency cash projections, including recognition of major future financial obligations (for example, progress payments to project contractors).

¹¹ Name of policy changed to *Queensland Leasing Approval Policy for Public Sector Entities*



Refer to *Information Sheet 3.6 – Expense Management Systems (excluding HR)* for information relating to expense systems.

Related resources

- Annual Leave Central Scheme Guidelines, Queensland Treasury
<http://www.treasury.qld.gov.au/office/knowledge/docs/annual-leave-guidelines/index.shtml>
- Financial Reporting Requirements for Queensland Government Agencies, Queensland Treasury
<http://www.treasury.qld.gov.au/office/knowledge/docs/fin-reporting-req/index.shtml>
- Leasing in Queensland Public Sector Policy Guidelines, Queensland Treasury
<http://www.treasury.qld.gov.au/office/knowledge/docs/leasing-in-qld/index.shtml>
- Long Service Leave Central Scheme Guidelines, Queensland Treasury
<http://www.treasury.qld.gov.au/office/knowledge/docs/long-service-leave-guidelines/index.shtml>

Further information

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Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.



Information Sheet 3.11 – Taxation Compliance Systems

Introduction

Section 61(f) of the *Financial Accountability Act 2009* (the Act) requires each accountable officer and statutory body to perform functions conferred on them under the Financial Accountability Act or other Act.

These obligations will include those that are applicable under Commonwealth, State and local government jurisdictions. It should be noted that the references provided are not exhaustive, and agencies should seek appropriate advice from either internal agency taxation specialists, Queensland Treasury Commonwealth Taxes Unit, Office of State Revenue or external specialists, if required. It should also be noted that, given the complexity of taxation legislation and its interpretation, it is recommended that agencies seek advice from specialist services to access the most recent legislation, regulation and rulings, when updating FMPMs.

This Information Sheet is designed to provide assistance to agencies in identifying their taxation obligations, and to provide reference points to obtain further information. It does not provide guidance on the reporting of taxation liabilities in agency financial statements. The *Financial Reporting Requirements for Queensland Government Agencies* (FRRs) published by Queensland Treasury deals with agencies' obligations in this regard.

Commonwealth taxation and levies

The Australian Taxation Office (ATO) administers legislation governing taxes, superannuation and the Australian Business Register. While most agencies are exempt from income tax, a range of taxation and superannuation obligations will apply and may include, but not be limited to:

- **Goods and Services Tax (GST)**, which is a broad-based tax of 10% levied on most goods and services sold or consumed in or imported into Australia.
- **Pay As You Go (PAYG)**, which is the system of withholding income tax from salary and wage payments to employees and remitting those amounts to the ATO. The system is also used to collect the Medicare levy and Higher Education Contribution Scheme (HECS) debts.
- **Fringe Benefits Tax (FBT)**, which is a tax paid on certain benefits provided by employers to their employees or an employee's associates in place of part of their salary or wages. This can include voluntary agreements between employers and employees known as salary sacrifice agreements.
- **Superannuation Guarantee**, which is a levy applied to employers to provide superannuation contributions on behalf of employees, with contributions paid to a complying superannuation fund, retirement savings account, or to the ATO.
- **National Tax Equivalent Regime (NTER)**, which is an administrative arrangement under which relevant taxation laws will be applied notionally to the NTER entities as if they were subject to those laws. The primary objective of the NTER is to promote competitive neutrality, through a uniform application of income tax laws, between the NTER entities and their privately held counterparts.



Other Commonwealth taxes and charges which may arise from agency operations include capital gains tax, excise duty and customs duty. It is recommended that agencies seek advice from the Queensland Treasury Commonwealth Taxes Unit (CTU) for appropriate direction and assistance.

The Role of the Queensland Treasury Commonwealth Taxes Unit

CTU is responsible for whole-of-government coordination, including legislative and compliance policy, regarding all Commonwealth tax liabilities affecting the Queensland Government.

CTU also assists agencies in understanding issues that may arise in the application of Commonwealth tax legislation, and may direct the agency to appropriate persons within the ATO for assistance. More specifically, CTU can provide agencies a view regarding the application of GST and FBT to their transactions. Importantly, it is recommended agencies contact a suitably qualified professional to obtain tax advice about a particular issue or transaction. Agencies are advised to forward any external tax advice received to CTU to ensure that whole-of-government issues are not at risk.

Agencies may lodge ruling requests for other taxes directly with the ATO in relation to Commonwealth taxation matters or ask CTU to submit them on their behalf. Given whole-of-government taxation policy imperatives, agencies are asked to liaise with CTU prior to lodgement and provide CTU with any copies of ATO rulings. Agencies are expected to document all relevant facts and review applicable legislation before contacting the CTU.

State taxation

Taxation and regulatory obligations applicable under State legislation are administered principally by the Office of State Revenue and include:

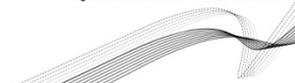
- **Payroll Tax**, which is calculated on the annual payroll of employers, covering employees and contractors.
- **Duties**, which are payable under the provisions of the *Duties Act 2001* and include transfer duty (payable on the transfer of property), vehicle registration duty (applicable to transfer of vehicle registration) and insurance duty. It should be noted that the State receives an exemption from most of these duties. For further information, refer to the Office of State Revenue website <http://www.osr.qld.gov.au>.

Where it is believed that other State taxes or levies may apply, it is recommended that agencies seek advice from either their Treasury Analyst or the Office of State Revenue.

Local government taxation

Taxes on property, in the form of municipal rates, are the sole source of taxation revenue for local government in Queensland. Commercial business operations conducted by local governments may be subject to the Local Government Tax Equivalents Regime (LGTER), and agencies should have regard to those provisions.

Where potential obligations are suspected or identified, agencies should contact the relevant local government body and clarify the matter.



Related resources

ATO Legal Database

<http://law.ato.gov.au/atolaw/index.htm>

<http://www.comlaw.gov.au/>

Fringe Benefits Tax

- Fringe Benefits Tax for Government, Australian Taxation Office
<http://www.ato.gov.au/Business/Government-entities/FBT-for-government/>
- Fringe benefits tax (FBT) and entertainment for government
[https://www.ato.gov.au/General/Fringe-benefits-tax-\(FBT\)/In-detail/Government-organisations/FBT-and-entertainment-for-government/](https://www.ato.gov.au/General/Fringe-benefits-tax-(FBT)/In-detail/Government-organisations/FBT-and-entertainment-for-government/)
- Fringe benefits tax information
<http://www.osr.qld.gov.au/payroll-tax/liability-payroll-tax/fringe-benefits.shtml>

Goods and Services Tax

- A Better Practice Guide for the Management of GST Administration, Australian Taxation Office and Australian National Audit Office, May 2003
<http://www.ato.gov.au/Business/GST/In-detail/Non-profit-and-government-organisations/Government-organisations/A-better-practice-guide-for-the-management-of-GST/>
- No ABN withholding – questions and answers
<https://www.ato.gov.au/Business/PAYG-withholding/In-detail/Reporting-and-paying-to-us/No-ABN-withholding--questions-and-answers>

National Tax Equivalent Regime

- National Tax Equivalent Regime Manual, Australian Taxation Office
<http://www.ato.gov.au/Business/Bus/National-tax-equivalent-regime-manual/>

Payroll Tax

- Contractors
<http://www.osr.qld.gov.au/payroll-tax/contractors/index.shtml>
- Payroll tax in Queensland
<http://www.osr.qld.gov.au/payroll-tax/index.shtml>

Other topics

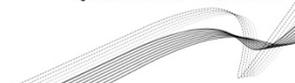
- Queensland State legislation (and follow link to topic of interest)
https://www.legislation.qld.gov.au/Acts_SLs/Acts_SL.htm



Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

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Information Sheet 3.12 – Commitments and Contingencies

Introduction

The *Financial and Performance Management Standard 2009* (the Standard) details the responsibilities of accountable officers and statutory bodies in the establishment of a liability management system.

Section 25 of the Standard requires that the liability management system must provide for:

- identifying, incurring, measuring, managing, satisfying and recording liabilities, and
- promptly identifying, monitoring, recording and reporting commitments for capital expenditure.

Section 26 of the Standard requires the establishment of a contingency management system that provides for:

- promptly identifying, monitoring and recording contingencies, and
- reporting, at least annually, to the accountable officer or the statutory body about those contingencies.

This Information Sheet is intended to assist agencies in complying with the above requirements. Additionally, it provides an explanation of the differences between commitments and contingencies, and their potential impacts on agency operations, management and risk mitigation strategies.

This Information Sheet does not provide guidance on reporting of commitments and contingencies in agency financial statements. The *Financial Reporting Requirements for Queensland Government Agencies*, published by Queensland Treasury, deals with agency obligations in this regard.

Commitments

A commitment is an intention to commit agency resources (usually funds) to a future event, that:

- is normally supported by a contract or quotation
- is normally quantifiable and, therefore, measurable
- may extend over multiple reporting periods, and
- binds parties to performance conditions.

Indicators that may confirm the existence of a commitment include:

- execution of a contract between parties for the delivery of goods and/or services
- potential loss to one of the contracted parties if contractual obligations are breached, or
- payment of compensation may result in the event of default.

Examples of commitments are the execution of contracts or placement of orders for:

- the purchase of major items of plant and equipment
- the purchase of office supplies
- the supply of communication services, or



- the engagement of external consultants.

A commitment crystallises as a liability when construction of the asset commences, items of equipment are received, office supplies are delivered, phone services established, or external consultants commence their engagement. Management of commitments is therefore a critical component of agencies' internal control and operational control systems.

Reporting to management should disclose anticipated costs, timing and impact on current and future cash projections. To capture and report this information, agencies should have systems in place to:

- update cash flow projections
- ensure payments are only paid when due
- ensure payments made are in accordance with the terms of contracts that have been executed between the parties, and
- manage and approve price or contract variations, if they occur.

Contingencies

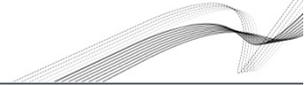
Contingencies are liabilities or (less commonly) assets that arise from past or current events, and whose existence will only be confirmed by the occurrence, or non-occurrence, of a future event outside the control of an agency. In summary:

- a contingent asset exists where compensation may be received from a third party, and
- a contingent liability exists where compensation may be payable to a third party.

Section 26 of the Standard details an agency's obligations to record and report on contingencies at least annually. The report may include the following:

- description
- name, address and Australian Business Number (ABN) of the other party
- value (actual amount or best estimate)
- type of obligation (for example, legal matter, indemnity, guarantee etc)
- identified trigger/s for realisation of contingency
- estimated date of expiration
- action taken to manage the contingency (for example, action taken to mitigate any losses), and
- details surrounding the finalisation of the contingency (for example, court decision).

While the Standard requires each agency to report at least annually, reporting may need to be undertaken more frequently (such as monthly) based on an assessment of the nature of the contingency, its materiality and the volatility of changing circumstances related to the contingency. The format of the reporting should allow the accountable officer to determine the nature, amount, potential risk/benefit and likelihood of the contingency occurring.



Related resources

- Financial Reporting Requirements for Queensland Government Agencies
<http://www.treasury.qld.gov.au/office/knowledge/docs/fin-reporting-req/index.shtml>

Further information

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Information Sheet 3.13 – Performance Management and Assessment

Introduction

Accountable officers and statutory bodies are required to achieve reasonable value for money by ensuring that the operations of the department or statutory body are carried out efficiently, effectively and economically (section 61 of the *Financial Accountability Act 2009*).

Performance management is the process that enables an agency to assess its achievement of its strategic objectives and delivery of its services and therefore measuring and assessing whether the operations of the agency are being carried out efficiently, effectively and economically. Performance management incorporates both:

- financial performance measures relating to costs of the delivery of agency services, and
- non-financial performance measures, including those relating to efficiency and effectiveness of service delivery.

This Information Sheet is intended to provide assistance to agencies in designing a performance management system. Information about developing performance measures is available in the document *Queensland Government Performance Management Framework Policy*, prepared by the Department of the Premier and Cabinet.

Legislative requirements

The *Financial and Performance Management Standard 2009* (the Standard) provides that each agency must have systems in place to provide information about whether the department or statutory body is:

- achieving the objectives stated in its strategic plan in an efficient, effective and economical manner, and
- delivering the services stated in its operational plan to the standard stated in the plan.

Information Sheet 2.10 – Planning provides information about strategic and operational planning.

The Standard provides that agencies must comply with the document *Queensland Government Performance Management Framework Policy*. It also provides that the persons responsible for obtaining the performance information must give the information to:

- the accountable officer or statutory body at least once every three months, and
- the appropriate Minister at least annually (or when requested by the Minister).

The persons responsible for providing the performance information should also:

- be responsible for overseeing the performance management systems for the agency
- have sufficient agency knowledge to critically assess performance results
- effectively communicate the results to management
- work closely with the chief finance officer (or statutory body equivalent) in assessing the results



provided by the performance management system

- work with the agency's senior management in the development of informative and useful performance indicators for the strategic plan, and
- assist in ensuring that the agency's planned services and service standards are aligned and integrated.

Developing performance management systems

A performance management system enables an assessment of whether the objectives of the agency are consistently being met in an effective, efficient and economical manner. Performance management can focus on the performance of an entire agency, a service area, employee, or even the processes to build a product or service, as well as many other areas.

An effective performance management system should recognise both Government and agency policies and objectives, and incorporate the requirements of each in its design. Agencies must comply with the document *Queensland Government Performance Management Framework Policy* when developing their performance management systems.

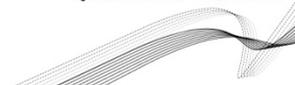
In developing performance management systems, agencies should ensure:

- financial and non-financial performance indicators effectively measure the achievement of Government and agency objectives and policies
- they do not include performance measures that do not influence or inform service delivery – that is, the performance measures must be relevant and should be providing only useful information that can be utilised to gauge the performance of the agency
- there is support and endorsement from senior agency management – one option might be to nominate a champion to oversee the development of, and providing ongoing support for, the performance management system
- there is assignment of accountability and responsibility – this may be to an individual or be a collective responsibility. (Where there is collective responsibility it is important to define the parts for which the person or agency has responsibility.)
- information provided to agency staff is simple and concise, and meets user needs
- information is provided as close to 'real time' as possible, and
- regular discussions are held to consider existing and emerging risks and opportunities, and mechanisms exist to share this information across the agency.

Potential issues in performance management systems

Potential issues that may arise in performance management systems include:

- data is not appropriate for the reporting required
- identified performance measures cannot be generated from data held on existing agency information systems
- focus on short-term data analysis, with no understanding of future trends or impacts



- decisions being made based on irrelevant or incorrect data
- summarising data to a level where it is not meaningful
- establishment of performance indicators and service standards that are unrealistic or unreasonable, and
- timeliness of reporting does not match the requirements of agency management and staff.

Review of performance management systems

Effective use of a performance management system provides opportunities to achieve best practice in agency operations and in the delivery of agency services. Regular review of the performance management system is essential if best practice is to be achieved and maintained.

An assessment of an agency's performance management system should include a review of:

- agency objectives and services
- key business processes
- current and future stakeholder needs
- performance information (performance indicators and service standards), report formats and benchmark measures used by other agencies or non-government bodies
- current legislative and regulatory requirements
- Commonwealth Government reporting requirements (for example, Council of Australian Governments (COAG) National Partnership Agreements)
- current technology and applicability to performance management systems, and
- feedback from internal and external stakeholders.

Performance audits

Section 37A of the *Auditor-General Act 2009* provides that the Auditor-General may undertake a performance audit of all or any particular activities of an agency. The purpose of such an audit includes deciding whether the objectives of the agency are being achieved efficiently, effectively and economically and in compliance with all relevant laws.

Further information about performance audits is available on the Queensland Audit Office website www.qao.qld.gov.au.

Related resources

- Queensland Government Performance Management Framework Policy, Department of the Premier and Cabinet
<http://www.premiers.qld.gov.au/publications/categories/guides.aspx>
- Performance Audit practice statement – Queensland Audit Office
<https://www.qao.qld.gov.au/reports-resources/fact-sheets>



Further information

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Information Sheet 3.14 – Financial Management Practice Manuals

Introduction

Section 16(1) of the *Financial and Performance Management Standard 2009* (the Standard) states that “each accountable officer of a department and each statutory body must prepare and maintain a financial management practice manual (FMPM) for use in the financial management of the department or statutory body”. Section 16 also states that the manual:

- is required to comply with related legislation, regulation or policies
- supports the management of the agency’s financial resources
- may be in the form of hard copy, electronic form, electronic system processes or a combination thereof, and
- must be adopted by all agency staff in the performance of their financial management roles.

While certain elements of the content of an agency’s FMPM are determined by the Standard, accountable officers and statutory bodies have considerable flexibility in the creation of their FMPM through the incorporation of agency-specific content, appropriately structured formats and operational processes that are applicable to the effective operation of the agency.

This Information Sheet is intended to assist agencies in meeting their obligations with respect to agency financial management practice manuals.

Development

The accountable officer or statutory body has responsibility for the development, implementation and maintenance of the FMPM for their agency.

In-house development

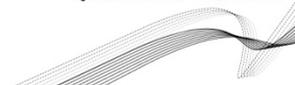
Where appropriate, various aspects of the FMPM development can be delegated to nominated officers within the agency. For example, financial processes and internal control policies may be delegated to the chief finance officer (CFO), while the officer responsible for the risk management function could establish and maintain that section of the FMPM.

Common statutory body FMPM

In the case where a Minister administers more than one statutory body, a standard FMPM may be developed for their collective adoption and use. Where a common FMPM is adopted, each statutory body must apply the FMPM unless the Minister decides otherwise (sections 16(5)-(7) of the Standard).

Optional shared FMPM

In the instance where a service provider provides services to client agencies, it may develop a standard FMPM for use by those agencies. Each accountable officer or statutory body may formally adopt the FMPM



as their own where the service provider's FMPM is assessed to be appropriate to the individual agency operations.

The adoption of a standard FMPM should assist the agency in reducing its administrative burden. Appropriately amended to reflect the agency's operating requirements, a standard FMPM should assist in providing consistency and reliability in data processing, particularly in the case of outsourced functions to a service provider.

Ultimately, the accountable officer or statutory body retains responsibility for the content of the FMPM to ensure that it meets their agency's specific requirements (except for statutory bodies - refer to sections 16(5)-(7) of the Standard discussed above).

Format

Sections 16(3)(a)-(c) of the Standard provide that each agency's FMPM:

- must be in accordance with the policies and procedures used by the agency in the management of its financial resources
- may consist of separate policies, guidelines and other material that are published in hard copy or electronic format, and
- may include processes that are part of the agency's electronic financial systems (for example, mandatory fields in SAP required for complete transaction processing).

It is suggested that agencies consider the following points when determining the format of their FMPM:

- Do all users, including those with disabilities, have ease of access to the FMPM?
- Does the design provide an appropriate, user-oriented layout and presentation?
- Has a comparison of the financial and environmental costs of printed or electronic form publishing and distribution been completed?

Content

Section 8 of the Standard states that each accountable officer or statutory body must establish a cost-effective internal control structure, and that this structure must be included in the financial management practice manual of the department or statutory body.

Additionally, section 16(3)(a) requires, at a minimum, the FMPM to be consistent with the policies and procedures that effectively manage the following:

- revenue
- expenses
- assets
- cash
- liabilities
- contingencies



- financial information and records management and reporting, and
- risk management.

Agencies should also consider the inclusion of other relevant policies or processes in the agency FMPM that, while not captured in the above list, may require agency compliance. Examples are:

- application of the provisions of the Queensland Procurement Policy
- administrative matters relating, for example, to staff, HR and payroll processes, or
- compliance with the documented agency processes in the assessment and payment of grants to recipients.

Review and maintenance

Financial management practices employed by agencies can become inappropriate or redundant over time. For instance, the functions of an agency may change as a result of a machinery of Government change, employment of new technology, or identification of other options to streamline agency processes.

Regular reviews of the agency's FMPM are important to ensure the policies and procedures accurately reflect current agency financial management practices. The review should also be used to identify opportunities to employ more efficient, effective or economical practices.

It is suggested that the accountable officer or statutory body:

- nominate one officer with responsibility for coordinating maintenance of the FMPM
- delegate the review and maintenance function of individual sections to appropriate officers within the agency and communicate to section 'owners'
- encourage staff to identify opportunities for streamlining processes
- review and test suggested amendments
- review the FMPM on a rolling basis, with a comprehensive review, for example, on a three or five yearly basis, and
- communicate changes to agency staff and stakeholders.

Any changes proposed to the FMPM should be approved by the accountable officer or statutory body.

Staff training

It is important that all staff receive adequate training about the agency's FMPM. This includes initial training provided to new staff, as well as regular ongoing training to ensure staff are aware of any changes to processes and requirements.



Further information

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Information Sheet 3.15 – Fraud Control

Introduction

Fraud is generally defined as dishonestly obtaining a benefit by deception or other means. “Fraud is normally characterised by some form of deliberate deception to facilitate or conceal the misappropriation of assets.”¹²

Fraud is a criminal offence which is an ever-present and ongoing risk in the management of public sector assets. It can be perpetuated from within an agency (by, for example, employees and contractors) or from outside the agency (by, for example, suppliers, service providers or members of the public). The changing environment in the public sector where agencies are under increasing expectations to “do more with less” and realise budgetary savings, may result in the diversion of resources from internal control maintenance and monitoring, providing increased opportunity for the perpetration of fraud. It is important to remain mindful that fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so, and some form of realisation of the act by the perpetrator. For example:

- incentive or pressure where an individual is living beyond their means
- a perceived opportunity may exist when an individual believes internal controls can be overridden, particularly if the individual is in a position of trust or has knowledge of specific deficiencies in internal control, and
- the ability to rationalise committing a fraudulent act, where some people have an attitude or ethical values which allows them to commit such an act, or individuals who are in an environment that imposes sufficient pressure on them (such as personal financial pressures).

While no system of internal controls can completely mitigate the risk of fraud, having basic internal controls in place that operate effectively can reduce the risk. Further, having processes and controls in place which specifically target the possibility of fraud can further address that risk. This Information Sheet is intended to provide assistance to agencies in identifying and implementing such specific processes.

Important statistics about fraud

KPMG conducts biennial fraud surveys across Australia and New Zealand (which consider both public and private sector). Some statistics from *A survey of fraud, bribery and corruption in Australia and New Zealand 2012* include:

- the total amount reported as being lost to fraud was \$372.7 million.
- 82% increase in individual frauds exceeding \$1 million.
- most fraudsters don't have a history of dishonesty, earn close to \$100,000 and are motivated by greed/lifestyle or personal financial pressure.
 - 91% of perpetrators had no known history of fraud.

¹² Fraud and corruption control – guidelines for best practice, (former) Crime and Misconduct Commission, Queensland, 2005



- 82% increase in fraudsters earning close to \$100,000.
- men are three times more likely to commit a fraud than women.
- fraud as a result of collusion is growing.
- 75% of major frauds were committed by an internal perpetrator.

Further, in its December 2011 *Fraud Barometer*, which collated data about large frauds going before the criminal courts in Australia, KPMG noted that:

- there had been an increase in the value and number of large frauds going before the courts. This observation was consistent with historical data suggesting a positive correlation between levels of fraud and economic recessions and/or episodes of financial instability.
- on a per capita basis, Queensland experienced more large frauds than the other mainland states and territories, with 30% more large frauds than Victoria and almost the same number as New South Wales, despite a population of almost 3 million fewer people.

Processes targeted toward addressing fraud risk

Many processes exist which agencies could implement to specifically address the risk of fraud. There is no 'one-size-fits-all' approach to designing appropriate controls to target fraud and the approach adopted by an agency will depend upon a number of factors, such as the sensitivity of the agency to fraud, the complexity and structure of the agency, the nature and complexity of the financial transactions the entity processes, and the cost of implementing and monitoring the controls when assessed against the associated benefits.

As identified in KPMG's *Fraud Barometer*, given the continued losses being experienced by various organisations as a result of fraud, there is a continuous need to have in place effective approaches to fraud prevention and detection. These should include:

- undertaking robust risk assessments that challenge existing internal controls with a focus on procurement, contracting, accounting and payroll functions, including electronic banking and accounts payable vulnerabilities.
- using data analytics to extract useful information from large volumes of data to help identify unusual trends, potential fraudulent activity and relevant behavioural characteristics.
- providing staff with fraud awareness training. Staff may be responsible for many frauds, but they are also an agency's best defence against it.
- making sure there is a formal plan for combating and responding to fraud. Good intentions do not deter or detect many frauds; robust controls and thorough training do. An effective plan should set down clear roles and responsibilities and should allow for confidential reporting channels through which people can raise concerns and suspicions.

Building on these general themes, the following are examples of processes that may be implemented by agencies, many of which have been drawn from key findings of the Auditor-General in his Report to Parliament No. 5 for 2012 *Results of audits - Internal control systems*.



Fraud control policies and plans

Agencies should develop fraud policies and plans which target the specific fraud risks to their own agency. A fraud policy should:

- clearly communicate the agency's values and business practices
- articulate the commitment of senior management to these principles
- be based on a risk-management philosophy, and
- contain appropriate responses to identified threats.¹³

Fraud control plans support fraud policies. Robust fraud control plans set out agencies' strategies for the prevention and detection of, and response to, fraud, and clearly identify:

- the likelihood and consequence of potential fraud risks occurring in the agency
- an assessment of fraud risks after considering the effectiveness of existing internal controls in preventing fraud, and
- an action plan to reduce fraud risk to an acceptable level.¹⁴

The (former) Crime and Misconduct Commission's *Fraud and corruption control – guidelines for best practice* provides guidance on preparing fraud policies and plans.

Once plans and policies are in place, management must show a commitment to these and demonstrate that fraud will not be tolerated.

Segregation of duties

Segregation (or separation) of duties is a basic internal control that should be present in all aspects of an agency's financial internal controls. Basically, the segregation of duties ensures that individuals do not perform incompatible duties. Duties are generally considered to be incompatible from a control perspective when it is possible for an individual to commit an error or fraud and then be in a position to conceal it in the normal course of their duties. For example, an individual who processes cash receipts from customers should not also possess the authority to approve and record credits to customer accounts for sales results and bad debt write-offs. In such a case, in the absence of compensating controls, this individual would be provided with the opportunity to steal cash receipts and cover the theft by recording fictitious sales returns or writing off the corresponding debtors' balances.

While the risk of collusion remains, ensuring at least two people are involved in any transaction will generally minimise the opportunity for fraud being perpetrated.

In smaller offices where separating duties is more difficult, compensating controls should be put in place. For example, independent supervisor reviews of work performed, regular review of audit trails, or management testing of samples of work performed by the relevant officers, may offer effective compensating controls to counter the absence of resources to enable the effective segregation of duties.

¹³ Fraud and corruption control – guidelines for best practice, Crime and Misconduct Commission, Queensland, 2005

¹⁴ Auditor-General Report to Parliament No. 5 for 2012 Results of audits – Internal Control Systems



Procurement framework

Procurement can occur through a number of methods, for example, through the use of purchase orders, direct invoices, corporate cards or petty cash. Each of these methods carries different risks, benefits and related administrative costs.

Specific direction should be provided to staff as to what procurement method is appropriate in various circumstances, taking into account the fraud risks related to the transaction and associated administrative costs. For example, purchase orders with an associated three-way matching process would potentially provide the highest level of control in respect to a significant asset acquisition, but naturally the associated administrative cost would be higher than an acquisition made via a corporate card.

Review of financial delegations

Delegations should be regularly reviewed (at least annually, unless there have been significant changes to the agency, in which case it should be more frequently) to ensure they remain both current and appropriate. The assignment of delegated authority should be changed or withdrawn as required (for example, on the change in officers appointed to various positions, or in the event of an agency restructure). For business continuity purposes, agencies should ensure processes are in place to withdraw or change delegations if individual officers change positions. This particularly applies whilst relieving arrangements are made due to absences from the work place. However, financial delegations should not be automatically provided based on the level of an officer, or because an officer is acting in a particular position which generally has a financial delegation. There should be a business reason that clearly demonstrates that a delegation is required and management should ensure that the assigned delegation authority is both congruent with the officer's position and the opportunity to perpetuate fraud is adequately addressed (for example, the officer with delegated authority to approve expenditure is appropriately segregated from other processes involved in executing related transactions and related accounting system operations).

Any review should include an assessment of whether officers with a delegation actually continue to need it for their normal roles and responsibilities. The more staff with the ability to authorise expenditure, the greater the risk of inappropriate payments and the more difficult it is to maintain controls to ensure payments are appropriately and correctly authorised.

Maintenance and review of vendor masterdata (or masterfile)

Strong controls must be in place over vendor masterdata. These include:

- the initial creation of a new vendor record – approval from an authorised officer, based on original documentation provided by the vendor, ABN checked, address checked, and with independent checks and reviews of input by officers appropriately segregated from the vendor masterfile maintenance function.
- amendments to vendor masterdata – must be at the request of the vendor, based on original documentation, separately verified with the vendor (using contact details obtained through public sources, such as the internet) and input independently reviewed by an officer appropriately segregated from the vendor masterfile maintenance function.
- conducting regular reviews of all vendor masterdata – masterdata should be subject to periodic review and the data cleansed, such as identifying and blocking invalid, inactive or duplicate vendors. Again, outputs from the review and cleanse process should be subject to independent reviews by an officer appropriately segregated from the vendor masterfile maintenance function.



- access restricted to vendor masterdata – in the absence of robust compensating controls, officers with access to vendor masterdata should not have access to the accounting system operations and processes relating to procurement or expenditure.

Analytical review of data

Regular analytical review of data may assist with detecting frauds that have occurred, and may help with the identification of high-risk areas for the agency. Overt review and monitoring also demonstrates to staff that their work is reviewed and that there is zero tolerance to fraud in the agency.

This type of monitoring is best carried out as a live review on a continuous basis, so that irregular or unusual transactions (such as transactions that have bypassed normal processing controls) or trends can be identified and investigated in a timely manner.

Agencies should document their processes for the analytical review of data and retain electronic copies of analytical reviews as this provides documented evidence of the effective operation of detecting internal controls and may present a key control which can be relied upon as part of audit processes.

Organisational culture (including staff training)

A healthy agency culture is reinforced by routine monitoring and assessment of controls. Management provides a powerful role model in setting the ethical tone of the agency. Management should demonstrate, through words and actions, that they enforce and monitor the agency's controls and are themselves subject to the same controls. An agency should be committed to ethical and accountable behaviour at all times.

Employees play a significant role in the prevention and detection of fraud. However, without specific fraud awareness training, employees are less likely to identify the early warning signs of fraud and will not be equipped to respond appropriately. The 2010 KPMG Fraud and Misconduct Survey found that in 38% of major frauds, relevant red flags were overlooked or ignored.

Effective and ongoing employee training, particularly for those employees who are responsible for performing internal control procedures, would improve the prevention as well as the detection and response to fraud. It may be beneficial to have multiple training programs to cater for differing staff needs within the agency, for example, one for those with a financial delegation, and another for operational staff.

Training should be provided at induction of a new employee, as well as continuously to reinforce the importance to staff and highlight changes to internal controls or processes. Topics that the training could cover include:

- an overview of the agency's fraud control policies and plans
- an overview of the risk areas of the agency
- key factors that staff should be aware of in their role, and
- actions staff can take if an issue is detected.

'Red flags' or early warning signs

There are a number of 'red flags' or early warning signs of fraud activity which can be used to help profile possible internal perpetrators. The table below is sourced from the Australian National Audit Office's *Fraud Control in Australian Government Entities*. This is not an exhaustive list of early warning signs.



Early warning signs: people	Early warning signs: areas or activities
<ul style="list-style-type: none"> • Unwillingness to share duties or take leave. • Refusal to implement internal controls. • The replacement of existing suppliers upon appointment to a position or unusually close association with a vendor or customer. • A lifestyle above apparent financial means; the provision of gifts to other staff members. • Failure to keep records and provide receipts. • Chronic shortage of cash or seeking salary advances. • Past legal problems (including minor thefts). • Addiction problems (substance or gambling). 	<ul style="list-style-type: none"> • Financial information reported is inconsistent with performance indicators. • Abnormally high and increasing costs in a specific cost centre function. • Dubious record keeping. • High overheads. • Bank reconciliations not up to date. • Inadequate segregation of duties. • Reconciliations not performed on a regular basis. • Small cash discrepancies over a period of time.

What to do if fraud is detected or suspected

Agency responsibility

Section 21 of the *Financial and Performance Management Standard 2009* (the Standard) contains specific provisions about the responsibilities of agencies if a loss is identified that may be as a result of an offence or misconduct. In these situations, the agency must maintain a record about the details of the loss (including the details required by the Standard), and if it is a material loss, report it as soon as practicable (but within 6 months) to:

- the appropriate Minister, and
- the Auditor-General, and
- either the police or the Crime and Corruption Commission (CCC), depending upon the nature of the loss (refer to the Standard for details). Reports to the police or CCC must be made as soon as a reasonable suspicion has been reached that fraud is occurring or has occurred.

Employee responsibility

If an employee becomes aware of a suspected fraud, their first point of reference should be the agency's fraud policies. Alternatively, there are a number of possible avenues open to employees to report suspicions. These include the employee's supervisor, the agency's finance area or the agency's internal audit function.

Outside the agency, the employee can also discuss concerns with the Queensland Audit Office or the CCC.



Under the *Public Interest Disclosure Act 2010* (PID Act), agencies are required to make arrangements for public disclosures to be made and received anonymously. The PID Act also requires agencies to make their reporting arrangements known publicly on the agency's website.

Disclosers are not to try to investigate their suspicions. Having gained a reasonable suspicion that fraud is occurring or has occurred, they are to report their suspicions. They might, however, take reasonable steps to secure items which may be evidence of wrong-doing but only in circumstances where they do not put themselves or others at risk, or where their actions will not reveal their suspicions to the alleged wrong-doer.

Related resources

- A survey of fraud, bribery and corruption in Australia and New Zealand 2012, KPMG
<https://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Fraud-Survey/Documents/fraud-bribery-corruption-survey-2012v2.pdf>
- Auditor-General Report to Parliament No. 19 for 2014-15 Fraud Management in Local Government
- Auditor-General Report to Parliament No. 5 for 2012 Results of audits – Internal Control Systems
<https://www.qao.qld.gov.au/reports-resources/parliament>
- Commonwealth Fraud Control Guidelines, Attorney-General's Department, Canberra, 2011
<http://www.ag.gov.au/Publications/Documents/CommonwealthFraudControlGuidelinesMay2002/Commonwealth%20Fraud%20Control%20Guidelines%20March%202011.pdf>
- Fraud and corruption control guidelines for best practice, Crime and Corruption Commission
<http://www.cmc.qld.gov.au/research-and-publications/publications/misconduct-prevention/fraud-and-corruption-control-guidelines-for-best-practice-1.pdf/download>
- Fraud and Misconduct Survey 2010 – Australia and New Zealand, KPMG
<http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Fraud-Survey/Pages/Fraud-Survey-2010.aspx>
- Is fraud the silent partner in your business? Fraud Barometer Edition 6: Four year anniversary special edition, KPMG, 2011
<http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Fraud-Barometer/Documents/fraud-barometer-december-2011.pdf>

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.

Information Sheet 3.16 – Contract Performance Guarantees

Introduction

Contract performance guarantees are arrangements where the issuers (usually insurance companies and financial institutions) may be called upon to pay a fixed amount in cases where there is a failure to perform some contractual obligation. In practice, such guarantees are issued by a third party on behalf of a contractor guaranteeing satisfactory performance of the contract and appropriating for any deficiency in the contract (up to an agreed amount).

The *Financial and Performance Management Standard 2009* (FPMS) regulates the performance guarantees that may be accepted by an accountable officer of a department or an statutory body.

This Information Sheet must be read in conjunction with sections 36 to 41 of the FPMS.

Using a performance guarantee for each project

A performance guarantee is not mandatory. The agency has discretionary power to decide whether a performance guarantee will be required for a particular project. However, each agency must have an internal system for determining when a performance guarantee is required for a contract. If an agency decides to ask for a performance guarantee, then the performance guarantee can only be accepted from either the contractor or an 'approved security provider' on behalf of the contractor. Note that a performance guarantee given by a contractor must be a monetary security deposit.

Acceptable performance guarantee

The performance guarantee (other than monetary security deposit) can be provided in various forms; for example: performance bond, surety bond, insurance bond, bank guarantee, assurance bond, etc. The main criteria are that the performance guarantee must be irrevocable and unconditional and payable immediately on demand. The agency will decide the appropriate form and value of the performance guarantee.

Definition of a 'security provider'

The FPMS defines a 'security provider' as:

- a financial institution, or
- an insurance company, or
- Queensland Treasury Corporation, or
- a corporation that is a registered entity under the *Financial Sector (Collection of Data) Act 2001* (Cth).



The term 'financial institution' is not defined in the FPMS. Therefore, the definition provided in the *Acts Interpretation Act 1954* (Qld) (the AIA) is relied upon. The AIA defines a 'financial institution' as an authorised deposit-taking institution within the meaning of the *Banking Act 1959* (Cth) (the BA)¹⁵. The BA defines an authorised deposit-taking institution as a body corporate that has the authority, granted by the Australian Prudential Regulation Authority (APRA), to carry on banking business in Australia¹⁶. A list of authorised deposit-taking authorities is available on the APRA website. The FPMS defines an 'insurance company' as a company authorised under the *Insurance Act 1973* (Cth) to carry on insurance business¹⁷. A list of insurance companies authorised to carry on insurance business in Australia is available on the APRA website.

Definition of an 'approved security provider'

An 'approved security provider' is a security provider (as defined above) that meets the minimum credit ratings prescribed by the FPMS, or, in the event that the security provider does not have any credit ratings or does not meet the prescribed credit ratings, is approved by the Treasurer. Agencies cannot accept performance guarantees from a security provider that is not an 'approved security provider'.

Refer to section 36 of the FPMS for the prescribed minimum credit ratings.

Credit checking process

The relevant agency is responsible for verifying whether a security provider meets the prescribed minimum credit ratings to be an 'approved security provider'. This check can be conducted on ratings agencies' websites. Standard & Poor's (S&P), Moody's and Fitch have free access for checking the ratings of the institutions rated by them. However, a free account has to be created to be able to access the database. If an agency is unable to logon to a ratings agency's website for some reason, they should contact the QTC account manager to have them check the rating.

Below is an example of long term credit rating for Westpac Banking Corp from S&P website:

Westpac Banking Corp.

Issuer Credit Rating					
Rating Type	Rating	Rating Date	Regulatory Identifiers	CreditWatch/ Outlook	CreditWatch/ Outlook Date
Local Currency LT	AA- Regulatory Disclosures	01-Dec-2011	EE	Negative	07-Jul-2016
Local Currency ST	A-1+ Regulatory Disclosures	12-Sep-1996	EE		
Foreign Currency LT	AA- Regulatory Disclosures	01-Dec-2011	EE	Negative	07-Jul-2016
Foreign Currency ST	A-1+ Regulatory Disclosures	12-Sep-1996	EE		

¹⁵ *Acts Interpretation Act 1954* (Qld) Schedule 1: Meaning of commonly used words and expressions

¹⁶ *Banking Act 1959* (Cth) s 5

¹⁷ *Financial and Performance Management Standard 2009* s 36



Below is an example of long term credit rating for Westpac Banking Corp from Moody's website:

Westpac Banking Corporation

Ticker: **WBK** Moody's Org ID: **88100** Market Segment: **Financial Institutions** Industry: **NON-U.S. BANK**
Domicile: **AUSTRALIA**

LONG TERM DEBT

Rating: **Aa2**, Not on Watch
Type: **Senior Unsecured - Fgn Curr**
Outlook: **Negative**
Date: **18 Aug 2016**

LONG TERM DEPOSIT

Rating: **Aa2**, Not on Watch
Type: **LT Bank Deposits - Fgn Curr**
Outlook: **Negative**
Date: **18 Aug 2016**

LONG TERM RATING

Rating: **Aa2**, Not on Watch
Type: **LT Bank Deposits - Fgn Curr**
Outlook: **Negative**
Date: **18 Aug 2016**

SHORT TERM DEBT

Rating: **P-1**, Not on Watch
Type: **Commercial Paper - Fgn Curr**
Date: **18 Aug 2016**

SHORT TERM DEPOSIT

Rating: **P-1**, Not on Watch
Type: **ST Bank Deposits - Fgn Curr**
Date: **18 Aug 2016**

COUNTERPARTY RISK ASSESSMENT

Long-term: **Aa1(cr)**, Not on Watch
Short-term: **P-1(cr)**, Not on Watch

BASELINE CREDIT ASSESSMENT

Rating: **a1**, Not on Watch
Date: **18 Aug 2016**

ADJ BASELINE CREDIT ASSESSMENT

Rating: **a1**, Not on Watch
Date: **18 Aug 2016**

OTHER DEBTS ON WATCH?

No

Treasurer's approval to be an approved security provider

Security providers who do not meet the minimum credit ratings may apply to the Treasurer to be declared as an 'approved security provider'. Section 41 of the FMPS allows the Treasurer to approve a security provider (who does not meet the prescribed credit rating) as an 'approved security provider' if the security provider is regulated under a national regulatory scheme (that is, APRA) and meets all the requirements of the scheme.

The FMPS further provides that the Treasurer should have regard to the following factors when making the determination:

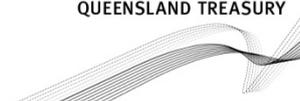
- the nature and history of the security provider's business operation
- the security provider's experience in providing contract performance guarantees
- the security provider's financial position
- the relationship between the contractor and the security provider, and
- the members of the security provider's board and management.

Assessment framework to be an approved security provider

All requests to be an 'approved security provider' will be assessed against the approval framework outlined below. This framework ensures that all applications are evaluated on a consistent basis and security providers without the prescribed credit rating may still participate in simple, low value/low risk projects. Note that there is no standard application form for the request.

In addition to the factors outlined in section 41 of the FMPS, the following criteria will be applied in assessing the appropriateness of a security provider:

- the security provider must be an APRA regulated entity



- the contractor and the security provider must not be related parties [within the meaning of the *Corporations Act 2001* (Cth)]
- annual guarantee fees must not represent more than 5 per cent of the security provider's total revenue or assets (whichever is lower), and
- total outstanding guarantees to Queensland Government departments and statutory bodies should not be more than those outlined in the table below or 10 per cent of the approved security provider's liquid assets (whichever is lower), with consideration as to whether a per contract cap should also be implemented.

	Credit rating of the security provider	
	S&P long term credit rating of BBB+, BBB or BBB- (or Moody's or Fitch equivalent)	S&P long term credit rating below BBB- (or Moody's or Fitch equivalent)
Total outstanding guarantees	Up to \$1 million	Up to \$250,000

The following conditions will be attached to every approval:

- the approved security provider must notify Treasury if an operational loss is made in any financial year, and
- the security provider must report any changes in their long term credit rating (where applicable) to the agency that is a party to the contract during the term of the contract.

Please note that the Treasurer's power to approve a security provider as an 'approved security provider' is discretionary.

Cost/benefit assessment

Section 37 of the FPMS provides that agencies must develop a contract performance guarantee system. One factor that this contract performance guarantee system must provide for is the circumstances in which it is appropriate to obtain a contract performance guarantee. Agencies are encouraged to consider and document that contract performance guarantees are generally unnecessary for low risk/low value projects/contracts. Usually the cost of obtaining such guarantees would far outweigh the benefits of the security provided. However, there may be circumstances where contract performance guarantees for low risk/low value contracts remain appropriate. For example, an agency may be using a supplier for the first time, and would like additional security.

Related resources

- Listing of Authorised Deposit-taking Institutions, Australian Prudential Regulation Authority
<http://www.apra.gov.au/adi/Pages/adilist.aspx/>
- Register of General Insurers, Australian Prudential Regulation Authority
<http://www.apra.gov.au/GI/Pages/general-insurers.aspx>



Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.

Information Sheet 3.17 – Contract Management

Introduction

“Contract management is the systematic and efficient management of contract creation, execution and analysis for the purpose of maximising financial and operational performance and minimising risk. ... [It involves ensuring] that goods and services are delivered as agreed over the life of the contract and that value for money is consistently achieved. Contract management as a function can extend beyond the current term of the contract where there are ongoing obligations associated with maintenance agreements, warranties and guarantees.” (Contract management and contract disclosure policy, Victorian Government Purchasing Board, February 2013)

This Information Sheet is intended to highlight the importance of contract management in all agencies and how to deal with the provision of guarantees and/or indemnities in a contract.

Legislation

The management of contracts is considered to be a key component of any good system of internal controls and risk management framework. Agencies are required to have both of these, as mandated by the *Financial Accountability Act 2009* (FA Act) and the *Financial and Performance Management Standard 2009* (FPMS).

Benefits of good contract management

Benefits of good contract management include:

- allowing agencies to realise expected benefits throughout the life of the contract, including being aware of their rights under the contract and action available to enforce those rights
- allowing agencies to monitor suppliers' and contractors' performance throughout the life of the contract, through the documentation and monitoring of key performance indicators (KPIs), targets, or the like
- providing agencies with advance warning of the impending expiry of contracts, and any resultant action associated with such expiry, for example, extending the contract, re-tendering, reassessing business needs, and other important dates under the contract
- enabling agencies to identify opportunities to rationalise the number of contracts they have by coordinating purchasing activities across the agency so multiple cost centres are not contracting with the same supplier
- enabling agencies to monitor contingent liabilities associated with guarantees/indemnities in contract agreements
- allowing agencies to readily identify outstanding guarantees and indemnities, and
- providing clarity around the parties' agreed roles and responsibilities.



The Auditor-General, in his Report No. 10: 2013-14 *Contract management: Renewal and transition*, highlighted the importance of contract management. The Auditor-General stated that “According to two studies completed in 2012, ineffective contract management can result in lower value for money over time. One study concluded that ineffective governance of contracts can cause contract value leakage of 17 to 40 per cent.”

System of contract management

Agencies should have policies and procedures that establish the expectations for effective contract management. This includes ensuring that officers with knowledge of the contract are delegated responsibility for making decisions or recommendations about the contract, for example, approving or recommending variations to the contract.

The extent or level of management will depend upon the risks associated with individual contracts. For example, low value, low risk contracts may require minimal contract management, whereas high value, high risk contracts may require detailed oversight by a dedicated contract manager.

Entering into a Contract

An agency should enter a written contract with a supplier, contractor or other service provider before that individual or company commences work or supplies any goods or services to the agency. This avoids situations arising where the obligations of the parties are unclear and also puts the agency in a stronger bargaining position in negotiating the terms of the contract.

Maximum Price and Authority to enter the Contract

A major risk for agencies in contract management arises where expenditure under contracts exceeds the originally intended amount. It is strongly recommended that all contracts entered into by agencies have a maximum price or maximum amount that will be paid by the agency under the contract.

Agencies should ensure that an individual with the correct delegation/expenditure authority (for the maximum amount of expenditure authorised under the contract) executes the contract on behalf of the agency.

Agencies should ensure that billing under the contract does not exceed the maximum price and those individuals with responsibility for managing expenditure under the contract are aware of the maximum price and the amounts spent under the contract to date.

Central Record of Contracts

Agencies should have a central record of all key contracts (including any provision of a guarantee or indemnity), capturing information to support contract management activities and reporting. As a minimum, agencies should be recording details of individual contracts (for example, key dates, KPIs, contract value/s), progress payments, variations, retention moneys and guarantees and indemnities.

If there is a guarantee or indemnity in the contract, this central record should capture detailed information on:

- the name of the entity who is the beneficiary of the indemnity or guarantee (that is, who the indemnity or guarantee was provided to)
- the nature and terms of the indemnity or guarantee (for example, what kinds of claims are indemnified)

under the indemnity, what triggers the payment of the guarantee, what is being guaranteed and the duration of the guarantee or indemnity)

- the purpose of the agreement that contains the indemnity or guarantee
- the estimated dollar value of the risk in relation to the indemnity or guarantee (that is, the estimated loss if the contingent event materialises, noting the practical difficulties in forecasting such estimate), and
- the risk management strategies adopted by the agency to manage or mitigate each indemnity or guarantee entered into, for example, through insurance coverage or other appropriate means.

Guarantees and indemnities

Guarantee

A guarantee is a promise whereby one party (the guarantor) promises to another party (the beneficiary) to be responsible for the debt or performance obligations that a third party (the primary obligator) has to the beneficiary, should the third party default in some way.

Indemnity

An indemnity is a promise whereby a party (the indemnifier) undertakes to accept the risk of loss or damage another may suffer (the beneficiary). However, in practice an indemnity is difficult to define as it does not describe a single, specific and universally recognised promise with defined and certain characteristics. In its simplest form, an indemnity is a contractual means for transferring all liability for a known risk from one party to another. The nature and scope of an indemnity will vary depending on the context of the contract.

Distinction between guarantee and indemnity

There is a common misunderstanding that guarantees and indemnities are the same and they are treated similarly at law. Reasons for this misconception could be that they do have much in common; for example, they both are contractual in nature and both share the same risk allocation function (that is, make good any loss suffered by another party). However, there are some critical differences as outlined in the table below.

	Guarantee	Indemnity
Does a primary contract and obligation need to exist?	<p>A guarantee relies on a primary contract between the primary obligator and the beneficiary, and therefore is said to be dependent on the primary contract.</p> <p>If the primary contract fails then the guarantee falls away and the guarantor will have no obligations under the guarantee, despite the beneficiary suffering loss or damage.</p> <p>If the primary obligator satisfies their obligations to the beneficiary under the primary contract, the</p>	<p>An indemnity is independent of any other contract and the obligations of the indemnifier are principal obligations. The indemnity will be enforceable as long as loss has occurred.</p>



	Guarantee	Indemnity
	guarantor will have no ongoing obligations to the beneficiary under the guarantee.	
Scope of liability	The beneficiary may recover the amount the primary obligator owes.	The assessment of damages will depend on the nature and terms of the indemnity.
Does it have to be in writing?	A guarantee must be in writing in Queensland. This requirement varies between States.	Indemnities do not have to be in writing and may be implied by the court on the basis of particular conduct (subject to statutory limitations).
Rights of subrogation and contribution	If a guarantee is called on and paid, then the guarantor can claim on other co-guarantors (if any) to contribute to the payment and will have the right of subrogation.	An indemnity generally does not grant an indemnifier the right of contribution (except as statute may provide) and subrogation.

For the purpose of the SBFA Act, the definition of 'guarantee' includes 'indemnity'.

Relationship with contract management

Generally an agency will be required to provide an indemnity (and sometimes a guarantee) when entering into a commercial contract. In addition, the provision of a guarantee and/or indemnity is sometimes required under legislation.

A guarantee or indemnity is ultimately a risk transfer mechanism which results in the agency accepting risks in order to facilitate a contractual transaction. These instruments are types of contingent liabilities that may give rise to actual liabilities by the omission or commission of specific future events. As such, the agency should accept such risks only when the expected benefits, financial or otherwise, outweigh the level and cost of the risk assumed by the agency (this will ultimately be the State where the agency is a department).

Whilst these clauses are often included in contracts, the risk imposed under such clauses may vary, and it is very important that agencies carefully consider the extent of the guarantee or indemnity being provided, and obtain legal advice where any uncertainty exists. Particular care should be given to indemnity clauses which are unlimited, either by dollar value or by nature, and consideration given whether it is appropriate to enter into the indemnity at all. If called in, these could have significant financial ramifications for the agency and potentially the State.

Legislative approval requirement

Statutory bodies have specific approval requirements outlined in the *Statutory Bodies Financial Arrangements Act 1982* (SBFA Act) when entering into a guarantee or indemnity. For more information about the application of the SBFA Act, refer to the SBFA Act Operational Guidelines. There are no equivalent requirements for departments in either the FA Act or the FPMS.

Risk management



A sound risk management strategy is fundamental to the effective management of exposures (and/or contingent liabilities) that result from the issue of guarantees and indemnities. Section 61 of the FA Act requires accountable officers and statutory bodies to establish and maintain appropriate systems of internal control and risk management. Agencies should have an overall corporate risk management strategy, a component of which should be a separate, more specific and detailed risk management strategy to manage the risks arising from granting guarantees and indemnities.

Risk management involves assessing and accepting risk in a way that minimises the long term costs to the agency, and potentially the State. Agencies should develop systems that consider the allocation of responsibility to officials to:

- manage the relationship with the indemnified party to reduce the likelihood that a contingency is triggered
- manage the risks from an agency perspective, by:
 - identifying the context within which the risk is to be managed
 - identifying the risks to be managed (this can be done in consultation with other parties who may have a greater understanding of the risk)
 - analysing the risks (involves consideration of the possible consequences of the risks and the likelihood that those consequences will occur)
 - identifying the need to retain the risk or whether the risk should be transferred, and
 - if the risk is to be retained, how it is to be treated.

To minimise the agency's, and potentially the State's, exposure to risk, any transaction involving the provision of an indemnity or guarantee should not be entered unless:

- there is an explicitly identified risk (that is, these instruments should not be issued simply to provide comfort against general, unspecified events/risks)
- the expected benefits (financial or otherwise) objectively outweigh the level and cost of the risks
- the price of the risk being borne has been factored into the value for money proposition (see *Procurement Guidance: Value for Money* issued by the Department of Housing and Public Works)
- there is a demonstrable need to accept the identified risks (in order to facilitate the contract in question)
- potential risks and losses have been identified and rigorously investigated and evaluated
- the agency is adequately protected and alternative options for managing the identified risks have been fully explored (such as the provision of an insurance)
- appropriate risk management strategies are in place and the agency is adequately protected
- there is a clause to ensure that the instrument (indemnities in particular) does not cover damages resulting from malicious, wilful, illegal or reckless acts of the indemnified person
- where there is any uncertainty as to the extent and operation of the indemnity or guarantee, legal advice has been obtained in relation to the indemnity or guarantee, and
- there are arrangements in place for monitoring the identified risks before and after approval for the

duration of the contract.

Minimising the associated risks

In commercial practice, the provision of a guarantee or indemnity has become a boilerplate term of a contract and often does not protect the party against liabilities beyond those afforded by common law and/or statute. However, this is not always the case, and the risk imposed under a guarantee or indemnity may extend an agency's potential liabilities beyond those imposed by the common law or statute. Accordingly, an agency should carefully analyse the extent of the liability it is assuming under the provision of a guarantee/indemnity. Where appropriate, the following clauses should be considered for inclusion in the guarantee or indemnity:

- a limit on the operation of the instrument
- maximum financial limits on claims which can be made under the instrument
- a termination clause to ensure the agency has the option to terminate the provision of a guarantee/indemnity arrangement once the contract has ended, and
- subrogation-like clauses (that is, the right to exercise the option of conducting, or participating in, the defence of any claims against the indemnified party, and to require full assistance from that party) and clauses giving the agency the right to take over any litigation related to the contingent liability.

Reporting obligations

Guarantees and indemnities do not impact on underlying cash balances unless the contingent event occurs, creating a liability. However, these instruments are legally binding obligations that can result in significant costs if the contingent event occurs. Agencies are required to report contingent liabilities in their financial statements in accordance with the Financial Reporting Requirements for Queensland Government Agencies (FRR 4D: Liabilities).

Related resources

- Auditor-General Report to Parliament Report 10: 2013-14 Contract management: Renewal and transition, Queensland Audit Office
<https://www.qao.qld.gov.au/reports-parliament/contract-management-renewal-and-transition>
- Contract Management and Contract Disclosure Policy, Victorian Government Purchasing Board, February 2013
<http://www.procurement.vic.gov.au/Buyers/Policies-Guides-and-Tools>
- Developing and Managing Contracts: Getting the right outcome, achieving value for money, Australian National Audit Office, February 2012
https://www.anao.gov.au/pubs?search_api_views_fulltext=contract%20managment&items_per_page=10&f0=field_publication_type%3A4
- I'm A Contract Manager, Department of Finance, Western Australia



https://www.finance.wa.gov.au/cms/Government_Procurement/I_am_a_Contract_manager/I_m_a_Contract_Manager.aspx

- *One Government* Contract Management Framework, Procurement Transformation Division, Department of Housing and Public Works
<http://www.hpw.qld.gov.au/SiteCollectionDocuments/OneGovernmentContractManagementFramework.pdf>
- Statutory Bodies Financial Arrangements Act 1982 Operational Guidelines, Queensland Treasury
<https://www.treasury.qld.gov.au/publications-resources/stat-bodies-op-guide/index.php>
- Resource Management Guide No. 414: indemnities, guarantees or warranties granted by the Commonwealth
<http://www.finance.gov.au/sites/default/files/rmg-414-indemnities.pdf>

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.