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Internal audit of the international trade and investment offices

Department of Jobs, Tourism, Science and Innovation

October 2019

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Table of Contents

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Objective

The objective of this internal audit was to assess the adequacy, efficiency and effectiveness of the internal controls and compliance with policy of expenses covering the last six years, remuneration, entitlements and travel of all Commissioners and Agents General over the last ten years, and the overall fraud and corruption control environment; relating to the Department of Jobs, Tourism, Science and Innovation ('JTSI'') overseas trade and investment offices ("the overseas offices").

Scope and approach

The scope of the internal audit considered the following:

1. The existence and adequacy of key policies, procedures, processes and controls in ensuring expenses are incurred appropriately and in line with respective policies, approved in line with JTSI's Delegation of Authority, monitored and recorded in a timely manner.
2. The processes, risks and controls involved in JTSI's remuneration, entitlement and travel processes, including compliance with relevant policies and procedures over the last 10 years for all Commissioners and Agents General.
3. The overall level of potential fraud risk and the design of the existing control environment in the overseas offices to detect and prevent fraudulent transactions.

The approach included the following:

- Consideration of relevant policies and procedural documentation;
- Interviews with key stakeholders across the JTSI head office and overseas offices, including site visits to four overseas offices;
- Data analysis over expense and credit expense data for the last 6 years; and remuneration, travel and entitlement data for the last 10 years;
- Sample testing of 400 expense transactions and 80 remuneration and entitlement transactions via onsite testing in Perth and the overseas offices; and
- Facilitating a fraud risk and control assessment questionnaire and conducting interviews to understand the design of the overall fraud risk management framework.

Overall summary

Progress to improve the overall control environment

The internal audit covered an extended period of time dating back to 2008, and addressed processes and controls which were in place prior to the machinery of government changes in mid-2017 which resulted in the formation of JTSI and the transfer of responsibilities for the London, Dubai and Tokyo overseas offices to JTSI.

In that context, a number of our observations relate to aspects of the control environment across the audit period, and we have noted instances where controls and processes have improved since 2017.

Notwithstanding these improvements and the changes underway, there are still significant gaps in the control environment in each area reviewed. This is reflected in the breadth and depth of findings, as summarised in Section 3.

Identified control weaknesses and non-compliances

Overall, the financial management of the overseas offices is highly manual in nature and we noted inadequate controls over the expense approval processes, including corporate credit card and travel-related expenses. We noted non-compliance with delegation approvals, credit card and travel policies; and inaccuracies and errors in account coding on occasions.

We also identified a number of instances where it is not clear how the underlying nature of the expense relates to the business activities of the overseas offices.

Whilst we did not identify any specific examples of duplicate claiming of allowances in the overseas offices, we noted opportunities to further improve the control environment over employment-related expenses. We also identified a number of entitlement or allowance claims which do not appear to be directly supported by the relevant Commissioner or Agent-General's employment contract.

Constraints in the analysis of data

A significant amount of data analysis was performed as part of the internal audit, across all the overseas office expenses. The data analysis was highly constrained due to the availability of data of appropriate quality, completeness and granularity; although we did identify trends and patterns which require further exploration. *(continued overleaf)*

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Overall summary (continued)

Lack of coordination and integration

A recurring theme identified during the audit was the lack of integrated coordination and consistent communication with the overseas offices, including the lack of an annual business or work plan for the offices aligned to a budget which has been developed on a consultative basis.

Fraud risk management framework requires improvement

From a fraud risk management perspective, it appears that JTSI has recently effectively documented a number of the minimum expectations as per the Australian Standard, at a baseline level, albeit not within a comprehensive and integrated fraud control strategy.

The challenge for JTSI is to move beyond a focus on primarily financial controls and documented policies toward a comprehensive multifaceted framework that adapts to emerging fraud risks.

We have made a number of recommendations that will assist JTSI to improve their approach to preventing, detecting and responding to fraud and corruption risks, particularly given the unique challenges presented by operation in foreign countries, geographical spread, varied employment arrangements; and connectivity issues.

Sustainable change will require an integrated approach

Addressing all of the 36 recommendations will require a combination of actions which address governance, policy, system, process, training, capability-building and cultural considerations.

Consideration will need to be given to striking the appropriate balance between oversight and control; and local empowerment and ownership to enable effective operations.

These recommendations also need to be considered within the broader business context and associated support and oversight arrangements of the overseas office, which will be informed by the Review of Western Australia's overseas trade and investment offices.

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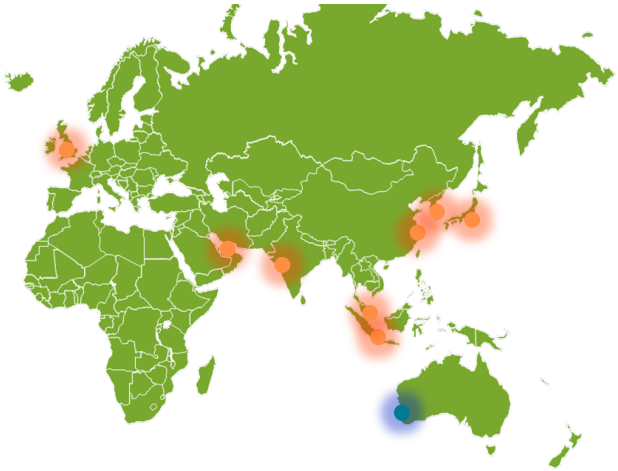
Overview of the Overseas Offices

JTSI are responsible for managing Western Australia's eight overseas trade and investment offices ('the overseas offices').

The overseas offices are responsible for identifying trade and development opportunities for Western Australia, and monitoring business developments and activities that are likely to have an impact on Western Australia's overseas interests.

The eight overseas offices are:



Office	Location	Annual office budget FY18 i)
China Office	Shanghai	$2,331,455
Europe Office	London	$2,256,457
India Office	Mumbai	$907,615
Indonesia Office	Jakarta	$1,047,377
Japan Office	Tokyo	$1,714,835
Middle East & Africa Office	Dubai	$913,000
Singapore Office	Singapore	$1,268,188
South Korea Office	Seoul	$661,603

i) *FY18 budget was the most current period suitable for review at the time of commencing the fieldwork*

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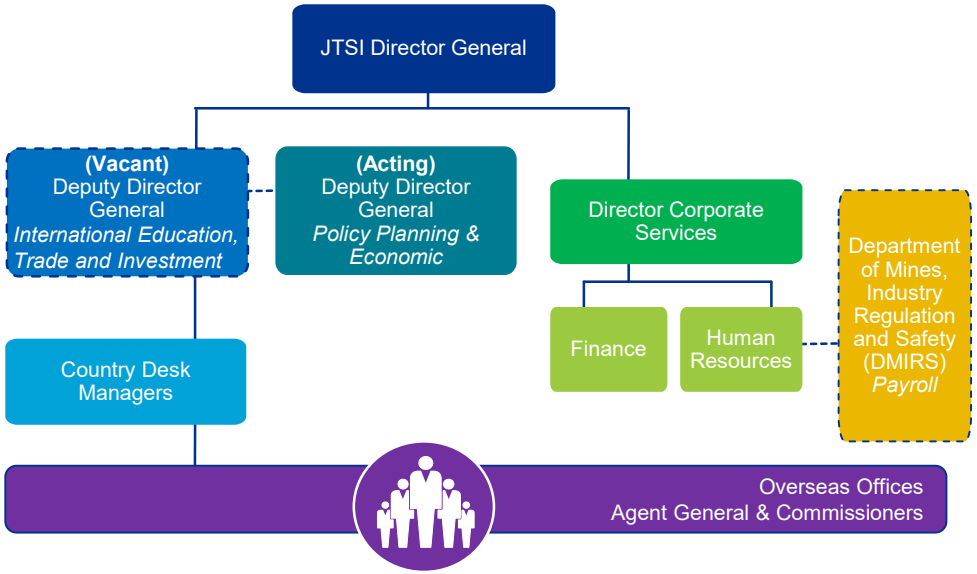
Financial management and oversight of the Overseas Offices

The diagram below illustrates the structure of the overseas offices in JTSI since the Machinery of Government ('MOG') in 2017 to 30 June 2019 and the role different areas within the department plays in the overall management and oversight of these offices.



The **Director General** has the overall accountability across the overseas offices. At the time of drafting this report and during our audit period, in the absence of a Deputy Director General International Education, Trade and Investment, the Deputy Director General Policy, Planning and Economic Development was responsible for the overseas offices.

In the **International Education, Trade and Investment** ('IETI') division, each overseas office is assigned a **country desk manager** who is responsible for supporting the overseas offices and their respective priorities. They act as a trade and investment conduit between offshore markets and Western Australia, and assist in coordinating ministerial visits and establishing the itinerary.

The **Finance** team which sits within the **Corporate Services** function is responsible for the financial management of the overseas offices. The Corporate Services Administrator coordinates monthly financial reporting and liaises on a day to day basis with the overseas offices. This role includes reviewing and certifying expenses (credit card and non credit card) incurred by the overseas office and clarifying queries in relation to the financial management of the offices.

The **Human Resources** team is responsible for the establishment of the Commissioner and Agent General's employment contract and is responsible in ensuring payroll payments (excluding reimbursed expense claims) made are in line with their respective contracts. The processing for the bulk of the remuneration payments are outsourced to the payroll function at the Department of Mines, Industry Regulation and Safety ('DMIRS').

In representing the Western Australian Government and identifying trade and investment opportunities in their respective regions, the Commissioners and Agent General at their respective overseas offices are responsible for the day to day activities and for ensuring that the offices are complying with departmental policies.

The illustration highlights that there are a number of areas within JTSI that play a different role in the administration and management of the overseas offices.

Please refer to page 16 for further comments regarding the coordination of the overseas offices.

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Overview

Data analytics was used to inform sample testing for general expenses, travel and remuneration (salary and allowances) across the audit period of **1 July 2009 to 28 February 2019**. Data was profiled to identify anomalies in volume, amount, and the nature of transactions.

From the anomalies identified, a sample of 50 transactions were selected for general expenses, and 10 for remuneration for each of the eight offices. Overall this totaled **480** sampled transactions.

The data analysis also provides insight for management as to the nature and patterns of spend in a digestible format that was previously unavailable. Summary overviews as to spend nature and patterns are illustrated in the overleaf and provide useful context for the report findings and recommendations.

Data Sources

Given the amalgamation and establishment of JTSI in 2017, obtaining data for the audit period required engaging with other government departments and business areas to extract data from systems used at the time. Specifically,

- The Department of the Premier and Cabinet: expenses, travel and remuneration for London, Dubai and Tokyo from 2009 – 2017; including the Department of Finance (Shared Services) for 2009 – 2012; and
- The Department of Mines, Industry Regulation and Safety: remuneration and entitlements for all offices for 2017 – 2019, as they perform payroll services for JTSI.

Below is the table summarising the detailed data sources used.

General	Credit Card	Travel	Remuneration
• FORS general ledger listing • Credit card expenses • DPC transaction listing	• Credit card expenses	• FORS general ledger listing • Credit card expenses • DPC transaction listing • Travel logs	• Ascender payrun listing • FORS general ledger listing • DPC transaction listing

Dashboards created for this internal audit have been provided to Management to enable further detailed analysis. A summary of key insights has been included in this report.

Data Cleansing and Analysis

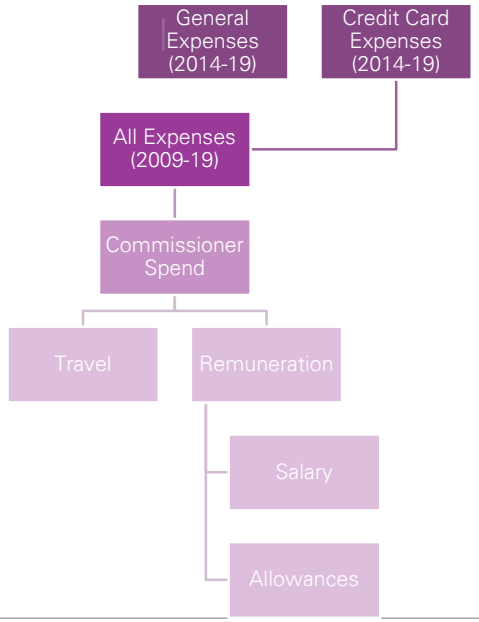
Monthly or fortnightly extracts were obtained from various sources (e.g. FORS [Finance Reporting System], Credit Cards, Ascender [Payroll system], etc.); with data consolidated into one 'source of truth' for the 10 year data period; then cleansed and formatted using **Alteryx** to create data outputs with consistent and comparable fields.

The diagram below summarises the relationship between the data sources. General and Credit Card expenses were profiled over a six year period, while Travel and Remuneration covered 10 years. As shown in the diagram, Travel and Remuneration were sub-sets of the General expenses, however included an additional four years of data and only considered Commissioner and Agent-General spend.

A number of assumptions were applied to generate the outputs for analysis. For example, determining Commissioner spend was based on whether the transaction description contained the Commissioner's name as no other indicator could be used.

Extracting travel or remuneration spend was reliant on filtering through both account code and transaction detail descriptions; particularly for travel as many transactions were potentially incorrectly coded. Refer page 24 for further comments on travel and page 30 for comments on data limitations.

The data outputs were imported into **Tableau** to create dashboards to visualise the data into different profiles such as office location, expense type, employee etc. The dashboards were used to determine trends over the audit period, and summarise total spend. Anomalies identified assisted with selecting samples for each of the eight offices.



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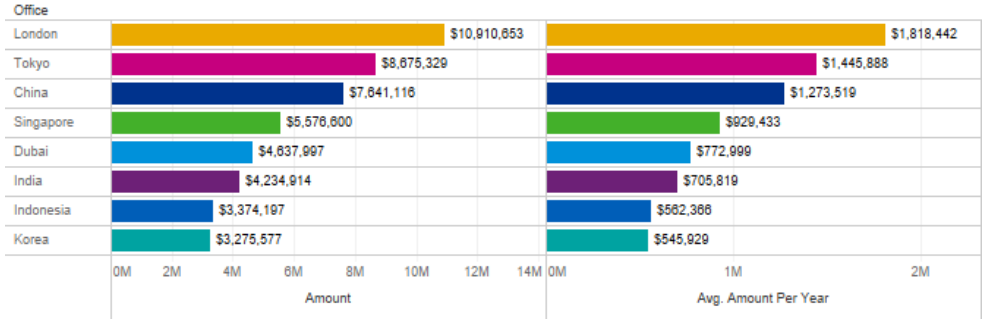
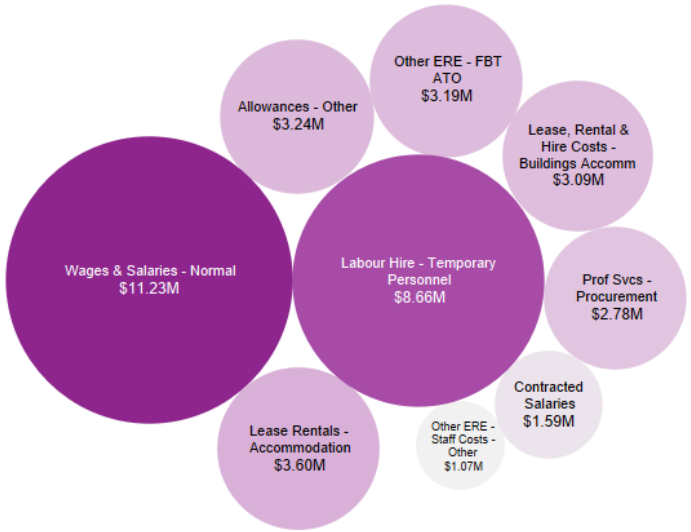
This section covers the data period between 2014 to 2019.

General expenditure

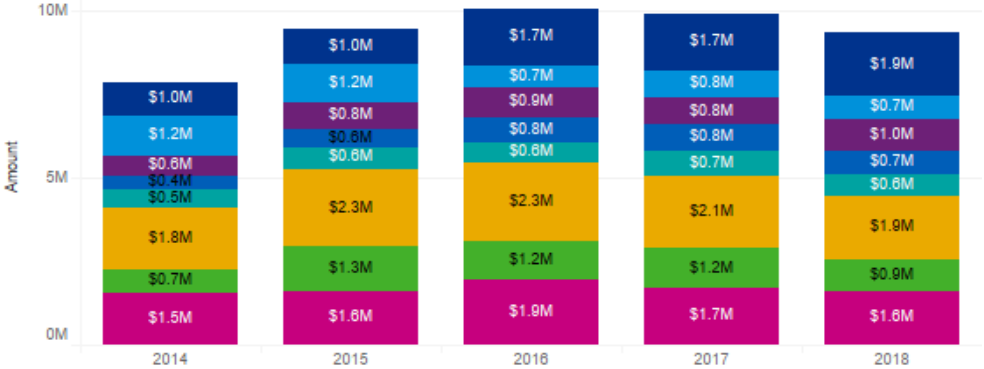
London has the largest spend overall between 2014 and 2019, and by average spend per year. Account 100102 (normal wages and salaries) makes up 39% of London's total spend. Compared to other offices, wages and salaries is between 4 to 12% of total spend, with the exception of Tokyo at 28%. The graph below summarises **total general**



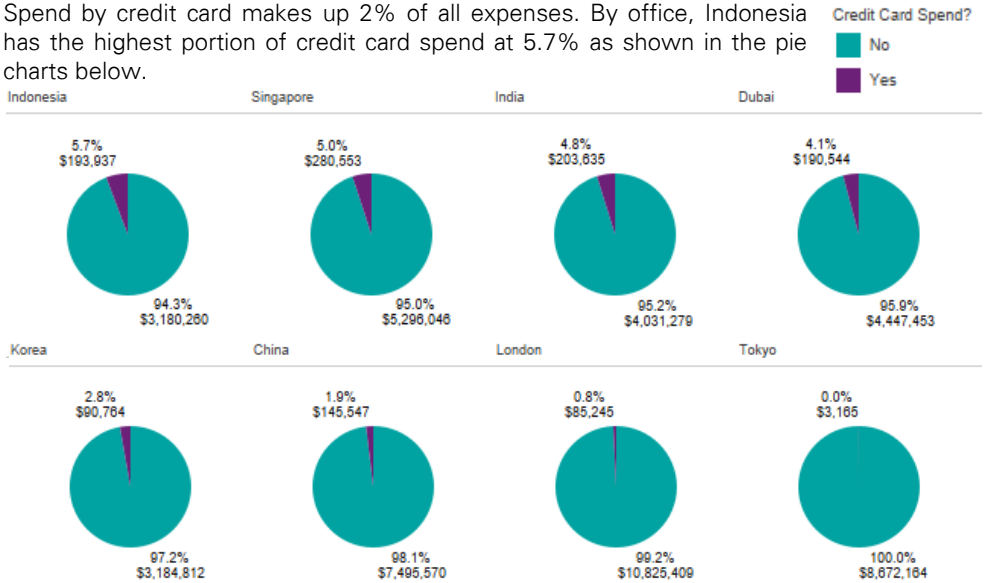


The **top 10 account codes** by largest spend has been summarised in the left diagram. As expected, employee related expenses (i.e. wages, salaries, temporary labour hire, contracted salaries) is the highest area of spend. Other spend related to staff entitlements. Costs associated with planning, management, implementation and evaluation of procurement activities was the fourth highest.

The **overall spend for all offices** has increased year-on-year since 2014. China has almost doubled spend over the last six years. Singapore doubled its spend in 2015 however has remained stable since then. Dubai and Korea note a decreasing trend in expenses. Note 2019 consisted of two months only and has therefore been excluded from the graph.



Spend by credit card makes up 2% of all expenses. By office, Indonesia has the highest portion of credit card spend at 5.7% as shown in the pie charts below.



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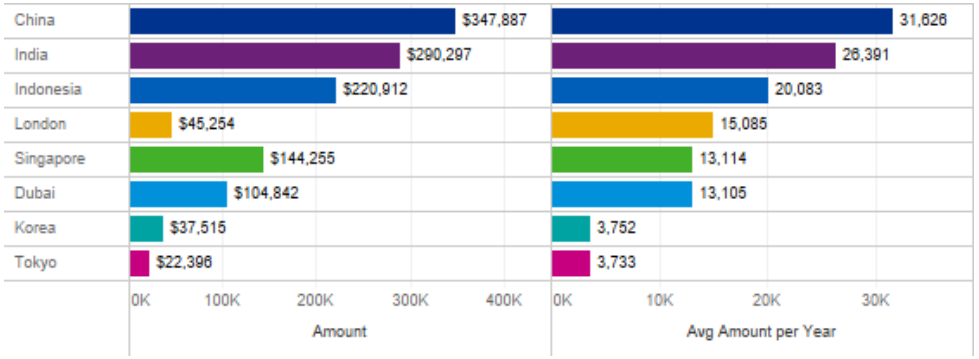
This section covers the data period between 2009 to 2019 for Commissioners and Agents-General only.

Travel expenditure

The graph below summarises the **total travel spend by office location**. China and India are the offices with the largest travel spend both on a totals basis and average. Note the number of years to determine the average amount per year was based on the first and last transaction date.



Below are the **top 10 account codes** for travel expenses. Intra-state travel allowance was the account coded with the largest amount of expenses. Transactions included both airfares, accommodation, cash reimbursements for travel related expenses.

Account Description	Amount	% of Total
Intra-State Travel Allowance	$232,524	20.3%
International Accommodation	$206,495	18.0%
International Airfares	$182,080	15.9%
Intra-State Airfares	$175,569	15.3%
Intra-State Accommodation	$91,782	8.0%
Other ERE - Staff Costs	$88,909	7.8%
Prepayments	$79,103	6.9%
Prof Services - Other	$47,540	4.2%
International Travel Allowance	$39,086	3.4%
Other International Transport	$1,224	0.1%

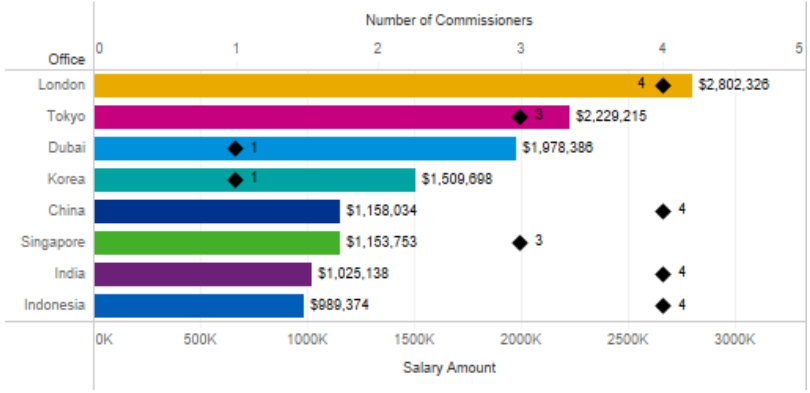
This table is based off the account the transaction was coded to, which is not always representative of the underlying expense due to the manual nature in coding. For example:

Prepayments consisted of transactions for accommodation expenses for Indonesia ($59k) and India ($20k).

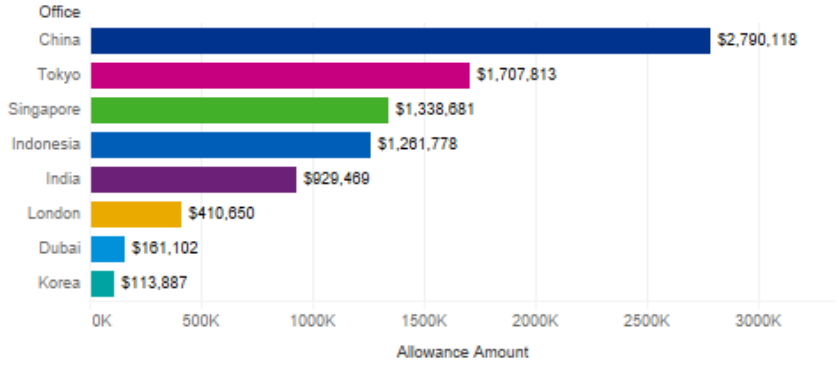
Professional services includes transactions for airfares and accommodation expense for the Singapore, $20k in accommodation for Indonesia, and a $550 accommodation expense for China.

Employment-related expenditure

Total **salary expenses paid** for the ten year period has been summarised **by office** below along with the number of Commissioners employed represented by the diamond shapes.



While China was the 5th ranking office for salary expenses, it is the top office for allowances payments. Accommodation allowances made up 22% of this total. The graph below summarises **allowances paid by office**.



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Summary of internal audit findings

The following is a summary of the improvement opportunities noted during the internal audit:

			Nature of recommendations – Primary focus			
Ref	**Risk rating**	**Description**	**Policy / procedure**	**People / training**	**System / process**	**Governance / clarity**
4.1	Moderate	Lack of integrated coordination and consistent communication with overseas offices		★		★
4.2	Moderate	Limited involvement of overseas offices in budget setting and monitoring			★	★
4.3	High	Inefficient and manual nature of the financial management processes		★	★	
4.4	Moderate	Gaps in policy and guidance provided to overseas offices	★			
4.5	High	Inadequate controls over the expense approval processes	★	★	★	★
4.6	High	Inconsistent travel-related expenses processes and controls and a lack of monitoring	★	★	★	
4.7	Moderate	Enhancement to the overall framework around the management of remuneration and entitlements	★		★	
4.8	Moderate	Improve the controls in place to prevent and detect duplicate claiming of allowances	★		★	
4.9	Moderate	Inconsistent treatment of employment contracts and conditions of locally engaged staff	★			★
4.10	Moderate	Data limitations and anomalies requiring further investigation			★	
4.11	Minor	Lack of clarity and consistency in the administration of co-located staff from other agencies	★			★
5.1	Moderate	Lack of comprehensive and coordinated fraud control strategy	★	★		
5.2	Moderate	Lack of clarity regarding the responsibility structure for fraud risk management		★		★
5.3	High	Inadequate fraud and corruption awareness and whistle-blowing mechanisms		★	★	
5.4	Moderate	Limited formal assessment and audit of fraud and corruption risks and controls	★		★	★
5.5	Moderate	Improvements required for key fraud control strategies	★	★	★	

Please note that the risk ratings have been made with reference to JTSI's risk rating framework as per Appendix 2.

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Prioritising the recommendations

Recommendations are included in the detailed Findings sections. Given their volume and interconnected nature, the below is an indicative framework to guide potential prioritisation.

HORIZON 1
Short term actions (< 12 months)
High priority and/or quick fixes

R1: Develop a responsibility and accountability matrix.

R2: Involve overseas offices in budget setting process and align to business plan.

R4: JTSI Finance to provide monthly summary of financial position to overseas offices.

R5: Strategically consider suitability of financial system to apply to overseas offices.

R6: Review and reduce the number of account codes.

R9: Document minimum expectations regarding the expense review process by overseas offices.

R11: Review and document the delegations of authority applicable to the overseas offices.

R12: Review current travel process policy and guidelines.

R15: Document policy and procedures regarding allowances and reimbursed expenses.

R16: Investigate specific examples of potential inappropriate use of entitlements.

R20: Investigate issue of gross salaries paid to locally engaged staff in Japan.

R28: Introduce anonymous fraud reporting capability.

R29: Conduct a fraud and corruption specific risk assessment.

R35: Ensure overseas offices utilise accrued leave in compliance with JTSI policies.

R10: Consolidate and streamline current policy and procedural documentation.

R25: Document an integrated fraud control plan.

R26: Review role and functions of Integrity Officer.

R27: Enhance specific fraud and corruption training.

R14: Implement monitoring and reporting of travel expenses.

R17: Consolidate payment of allowances through payroll.

R18: Conduct annual reconciliation of amounts paid versus employment contracts.

R19: Implement standard policy on recruitment of locally engaged staff.

R36: Enhance due diligence and screening for new employees in the overseas offices.

R7: Incorporate a mechanism to record overseas offices vendor/supplier information.

R34: Enhance vendor due diligence activities.

R32: Improve conflicts of interest, gifts & benefits reporting.

R23: Review the anomalies from the data analytics to determine if further investigation is required.

R30: Integrate fraud risk assessment outcomes into fraud control program.

HORIZON 2
Longer term actions (> 12 months)
Lower priority and/or fixes with long lead times

R21: Review the role and reporting lines of the Office Manager in the overseas offices.

R3: Provide overseas offices with access to JTSI's preferred financial system to monitor budget.

R8: Require all cardholders to acquit credit card expenses through an appropriate and value-for-money system.

R13: Introduce an appropriate and value-for-money travel system to the overseas offices.

R31: Implement an ongoing internal audit program of the overseas offices.

R24: Establish principles for administration of other agencies' staff in the overseas offices.

R22: Implement a program of data analytic routines to monitor key financial processes.

R33: Implement program of fraud detection analytics for high risk areas.

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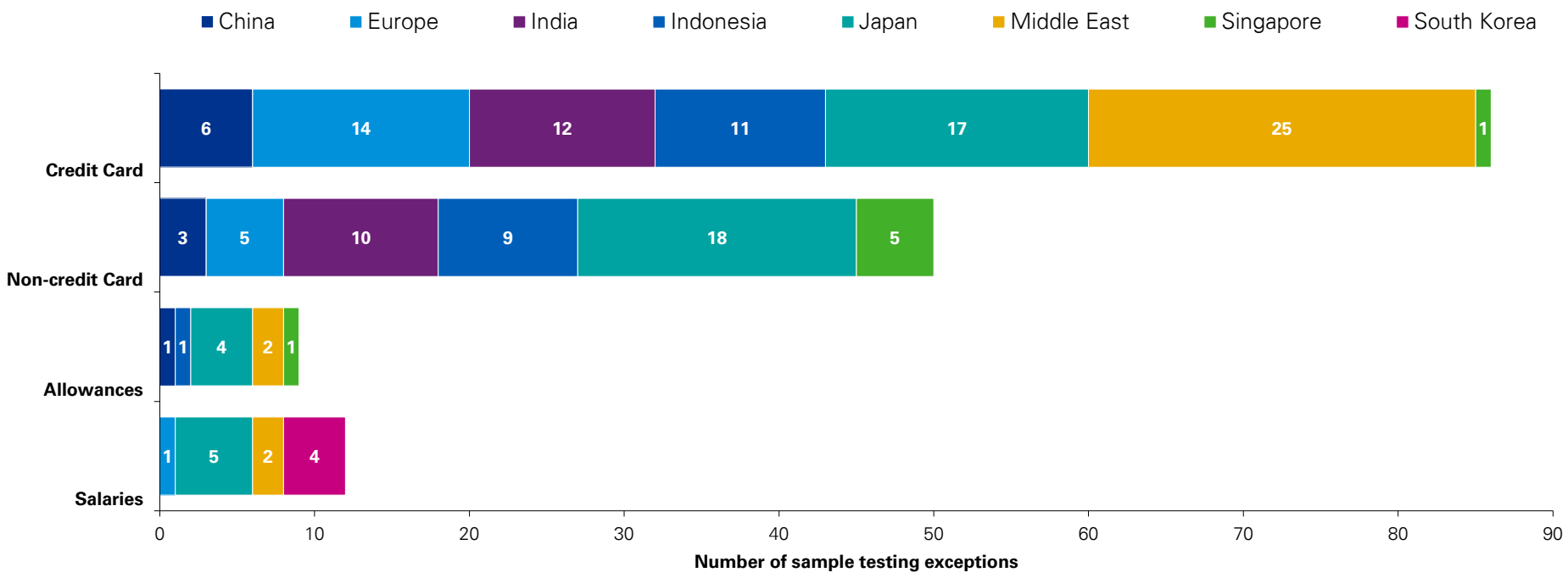
Occurrence of exceptions at overseas office level

Data analytics and data profiling on datasets received were performed to inform a total selection of 480 samples to be tested against identified controls over the specific scope areas. 60 samples were selected per office, consisting of 25 credit card expenses, 25 non-credit card expenses, 5 allowances expenses and 5 salary expenses (including travel related expenses). The exceptions themes identified from the sample testing include but are not limited to exceptions such as: missing/incomplete documentation; inadequate approvals; incorrect account codes; and non-compliance with policy/procedures. Each exception is elaborated further and tabled within the relevant observation themes in Section 4 and therefore would not directly tabulate to this summary below as one transaction may touch on more than one exception theme. It is important to highlight that for some instances where documentation could not be obtained (i.e. missing or not provided), this can be attributable to either the retention of the historical documentation given the audit went back 10 years or the potential loss of documentation during the transfer from one department to another. The following table presents a summary of the number of sample transactions that have some form of exception identified during our sample testing. They are colour coded by respective overseas offices in the following order:



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Key fraud and corruption risks and control ratings

The table on the following page includes the top 10 fraud and corruption risks, as identified by the overseas offices, and taking into account insights from KPMG experience in similar environments. The objective is to provide JTSI with an overview of the fraud risks most commonly faced by the overseas office network and an indicative assessment of the controls currently in place to mitigate these risks.

The following should be noted when considering the table:

- The rating on the right is with regard to how well controls are currently designed - not the likelihood/impact of the risks.
- The controls have been rated taking into consideration the overall network of the overseas offices, that is both the offshore (overseas offices) and the onshore (JTSI head office) components. The overall rating is a combination of the rating at the overseas office level and the JTSI head office level.
- The control rating of the offshore element is indicative of the overall position of the overseas offices. It reflects a combination of the ratings for all eight overseas offices and we note there may be differences in the adequacy of the control design between offices.
- The rating is limited to the extent the control is currently designed to mitigate *fraud risk aspects*. That is, we have assessed the design of the controls as they are at present, not as they were previously (i.e. pre 2017). Given the focus on the design (i.e. setup) of the control, the rating does not give an indication of the overall effectiveness of the controls.
- A key aspect of the control rating description is the concept of '*reasonableness*', in other words the control is assessed as to whether it is reasonable given the circumstances of the overseas office network.
- The rating of the fraud controls is based on JTSI's "Evaluation of Controls" rating included in their Risk Reference Tables, set out in Appendix 3.
- The ratings have taken into consideration the ratings as determined by the overseas offices as part of the Fraud Risk and Control Assessment survey, overlayed with KPMG's assessment based on interviews, documentation review and sample testing.
- The items provided are *examples* of potential risks only and does not indicate the prevalence of these issues within the overseas office network.
- The risk of bribery of foreign officials was specifically excluded based on our scope.

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Key fraud and corruption risks and control ratings (cont.)

Nr	Fraud risk category	Description / examples of fraud risks	Rating of fraud controls for overseas offices as at July 2019		
			Offshore elements	Onshore elements	Overall
1	Fraudulent employee expense claims	• Use of corporate credit cards for fraudulent private expenses, such as private travel; meals for friends or family; consumables • Submitting false expense reimbursement claims via false receipts or double claims • Misuse of petty cash funds for personal expenses	Control gaps observed	Limited control gaps observed	**Adequate**
2	Procurement and accounts payable fraud	• Procurement decisions inappropriately influenced or made for a corrupt purpose • Deliberate duplication of payments or overpayment for services • Manipulation of accounts payable by creating false vendors and/or false invoices	Major control weaknesses	Control gaps observed	**Inadequate**
3	Misuse of assets for personal gain and/or theft	• Excessive private use of phone, internet, computers, vehicles and other company assets • Theft of portable and attractive assets, such as phones and computers; and theft of petty cash	Major control weaknesses	Limited key controls	**Inadequate**
4	Gifts, benefits and hospitality fraud	• Accepting inappropriate gifts or benefits for personal gain in the course of official business • Providing or facilitating inappropriate gifts or benefits to third parties for personal gain	Minor control weaknesses	Limited key controls	**Inadequate**
5	Payroll fraud	• Creation of 'ghost' employees on the payroll with falsified bank details • Siphoning payroll funds from others to personal accounts	Minor control weaknesses	No control weaknesses observed	**Adequate**
6	Misuse of official position for personal gain	• Fraudulently using official position in interactions with government and commercial agencies Deliberately overstating authority of position to obtain a personal benefit	Control gaps observed	Limited key controls	**Inadequate**
7	Misuse and/or theft of sensitive information	• Deliberate release of sensitive data to third parties for personal gain, including insider trading • Theft of intellectual property or commercially sensitive data to obtain a personal benefit	Control gaps observed	Limited key controls	**Inadequate**
8	Falsifying records	• Creating false accounting or official records to hide fraudulent activities or obtain personal gain	Control gaps observed	Minor control weaknesses	**Inadequate**
9	Conflicts of interest	• Conflicts of interest across procurement and recruitment activities, including nepotism • Conflicts of interest in business dealings to favour related third parties	Major control weaknesses	Limited key controls	**Inadequate**
10	Cyber fraud	• Deliberate theft or destruction of assets or data • Being held to ransom for access to commercially sensitive information	Major control weaknesses	Major control weaknesses	**Inadequate**

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4.1 Lack of integrated coordination and consistent communication with overseas offices

Moderate

Observations

As illustrated on page 7, a number of areas within JTSI have touch points with the overseas offices, including the IETI division, finance and HR.

There is a **lack of clarity** as to where ultimate **accountability** for the overseas offices sits within JTSI; **unclear responsibilities** of the functions who interact with the overseas offices; **unclear delineation of responsibilities** between the head office and overseas offices; as well as **inconsistencies in the method and frequency of communication**. This has been exacerbated by the role of the Deputy Director-General for International Education, Trade and Investment being vacant since 2017.

In our discussions with the overseas offices, the following was noted to support this:

- The offices are unsure as to whom they should be reporting to on certain matters, leading to inefficiencies as the offices often send the same request to multiple parties in JTSI to ensure they receive a response. However, in practice this often leads to greater delays in responding, as each respondent believes the other is responding.
- There are inconsistencies in the frequency and nature of communications with the overseas offices. For example, some offices have regular teleconferences scheduled with IETI management, whilst others do not. Further, the manner in which the offices interact with the Country Managers in IETI often depends on the preferences of the relevant Country Manager.
- Not all of the overseas offices are connected to the JTSI intranet, which does not appear to be widely known or appreciated within JTSI. Regular communication on items such as key business and policy updates are provided on the intranet, or via email with intranet links, which the overseas offices do not all have access to.
- Communication of new policies or expectations regarding approvals have been communicated in an ad hoc fashion and often only in response to a query on why approval for an item had been declined.

The absence of integrated coordination from a central area increases the risk that communication is inconsistent and fragmented, leading to misalignment of priorities, as each area limits itself to the activities under its control without awareness of the broader context. It also decreases the opportunities for efficiency and enhancements through shared learnings.

It was also noted that in response to the events in Japan, as set out in the Corruption and Crime Commission's report on the WA Commissioner in Japan, there has been an overall tightening of controls within JTSI as it relates to the overseas offices. In particular, the oversight of expenses and travel has been strengthened and significant responsibility for approval moved from the overseas offices into JTSI head office.

However, we noted that the manner in which the new or additional controls have been communicated to the overseas offices was inconsistent. There is a need to ensure communication of all new policy or approval requirements are clearly set out and communicated to the overseas offices in a consistent manner.

Both the overseas offices and JTSI head office would benefit from greater clarity on which items require a certain level of approval; when and with whom there needs to be consultation prior to approval; and who should be informed of certain matters.

Providing clarity on accountability, reporting and communication may also improve the take up and compliance by the overseas offices, in particular if it is made clear at which point they can expect to be consulted as relevant.

We note that the recent organisational restructure from 1 July 2019 may assist in the realignment of responsibilities regarding the overseas offices.

Recommendations

R1: Develop a responsibility matrix which clearly sets out the accountabilities and responsibilities for the JTSI functions and activities as they relate to the overseas offices.

This can be done in the form of a RACI matrix which is designed to provide clarity on which party is Responsible, Accountable, Consulted and/or Informed on certain matters.

This should be overlayed with a formal delegations of authority framework which outlines the financial delegations applicable for relevant transactions. Please refer to recommendations on page 23.

The need to balance control versus local empowerment should be taken into account when developing the matrix.

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4.2 Limited involvement of overseas offices in budget setting and monitoring

High

Observations

Discussion with the overseas offices and JTSI Finance highlighted that there is limited involvement during the overseas offices annual budget setting process.

On an annual basis, each overseas office is allocated a budget which they can use to appropriately spend for the upcoming year. Each office is allocated a different budget based on their historical spend and limited input by other areas of the department such as the IETI division. JTSI Finance monitors how the actual expenses are tracking against the budget through the FORS financial reporting system. Funds are allocated to the respective overseas offices on a monthly basis in the form of a recoupment to top up expenses spent in the previous month.

The current Commissioners, Agent General and office managers highlighted that **they are not involved during the budget setting process and there is limited consideration or alignment of their annual business or work plan** (as submitted to IETI) and their budget.

The overseas offices also do not have access to the JTSI financial system (Oracle) and limited financial information is communicated back to the overseas offices indicating their financial position at any point in time in order for them to be aware of how they are tracking financially. Therefore the **overseas offices are unable to monitor their offices' budget against actual spend**.

As such, some offices have resorted to creating their own internal budget in order to keep track of their expenditure and plan their activities for the year.

The lack of access to the JTSI financial system also means they are not able to monitor their cost centres and are unaware of any other additional expenses that are charged to their cost centres. Our data analytics identified instances of JTSI personnel based in Perth who were coding expenses to the overseas offices cost centre. Whilst some of these directly relate to the procurement of items on behalf of the offices; other instances included expenses incurred by JTSI head office staff, such as travel costs for a visit to one of the offices and attendance at a conference in one of the countries.

A transparent budget, linked to annual the business planning process, will better enable financial decision-making and accountability across the network.

Recommendations

R2: Establish mechanisms for the annual budget setting process to involve the overseas offices and other key functions of JTSI to obtain key inputs and assumptions to ensure the budget accurately reflects the priorities of JTSI and broader government activities for the year, as documented in their work plans.

R3: In the long term, provide the overseas offices with access to the JTSI financial system so they are able to monitor their budget versus actual spend in real time. *This should be considered in conjunction with R5.*

R4: In the short to medium term we recommend JTSI Finance provides the overseas offices a snapshot and summary of their financial position on a monthly basis.

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4.3 Inefficient and manual nature of the financial management processes

Moderate

Observations

As the audit period spanned across the last ten years, the internal audit considered the financial management processes pre and post machinery of government changes that lead to the amalgamation of JTSI in mid-2017 and the transfer of responsibility for the London, Tokyo and Dubai offices from DPC to JTSI.

The financial management processes in both pre and post amalgamation periods were inconsistent and manual in nature., increasing the risk of fraud and/or human error.

i. Manual nature of financial management processes

In general, the process to record the overseas offices' financial data into JTSI's and previously DPC's respective financial systems are similar: On a monthly basis, each office is required to submit their expenses incurred in that month to the JTSI and previously DPC Finance team for review and final upload into their respective financial system.

We identified the following issues which relate to the manual nature of this process:

- None of the overseas offices have direct access to the either JTSI's or previously DPC's financial system to record and code expenses. The overseas offices record their financial data in their own respective local financial system or spreadsheets and either provide the Finance team a system generated report and/or an Excel spreadsheet.
- Whilst the overseas offices are provided with a chart of accounts to select and map the expenses to respective expense accounts in the JTSI financial system, there are multiple expense categories covering similar types of expenditure. This, overlaid with the manual nature of this exercise, **increases the risk of either incorrect coding or inconsistently coding expenses** into different accounts month on month, thereby limiting the ability to adequately analyse and monitor spending patterns. Our sample testing identified multiple instances of incorrect coding.
- There is limited system capability to capture and report on the overseas office expenses by vendor/merchant as this level of information is not captured. Therefore, **neither JTSI nor previously DPC have oversight across the vendors that the overseas offices engage with** and are unable to ascertain if valid vendors are engaged, thereby increasing the risk of potential conflict of interest.
- The submission of the monthly expenses does not include credit card expenditure. This process is separately performed by each cardholder and is not consistently captured in the monthly expenses submission. Some offices maintain a separate spreadsheet to monitor these expenses, but others do not. Therefore these offices have no oversight of their total office expenditure (being monthly cash and corporate credit card expenses).
- We identified instances of untimely recording of expenses in the financial system.
- There appears to be varying levels of verification of expenses against supporting documentation performed locally by the Office Managers at each respective overseas offices, which is due to the role and responsibility of the Office Managers not being consistent across offices.
- General **maintenance of supporting documentation and recordkeeping practices are inconsistent and varies between offices**. Not all offices (e.g. London, Dubai and Japan) have access to scan and save the documents in JTSI's shared drive. All offices also do not have access to JTSI's online records management system. As a result, during sample testing, there were some historical information that was unable to be located.

ii. Specific issues related to ex-DPC offices pre-amalgamation

- Upon receiving the monthly financial data from the three offices (London, Tokyo and Dubai) that were previously under DPC, DPC would manually code the data into the DPC general ledger at an account code level rather than a detailed transactional account level. **DPC did not routinely receive or review supporting documentation** such as invoices or receipts from the overseas offices and therefore did not perform detailed review of the expenses for legitimacy, reasonableness or appropriateness.
- The NAB corporate credit card expenses had a more detailed review process as it was acquitted through FlexiPurchase, which required submission of supporting documents and approval from the Director of Office of the Director General. However, in addition to the official NAB corporate credit card, the Tokyo and London overseas offices also incurred expenses on Diners Club and HSBC credit cards, respectively, which were linked to their local bank accounts. **DPC were unaware of the Diners Club credit cards** and therefore were not privy to the nature of expenses incurred. Whist **DPC were aware of the HSBC credit cards, they did not have oversight of the expenses** incurred as the transactional level of information was not provided and recorded, neither was it requested.
- Our testing identified an example where a Tokyo Office related expense was incorrectly coded to the London Office's cost centre. Inaccuracies in expense coding impact reported results, as well as potentially impacting the efficacy of any expense review process.

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4.3 Inefficient and manual nature of the financial management processes (cont.)

Moderate

iii. Specific issues related to all overseas offices post-amalgamation

- Upon receiving monthly financial data in the form of a cashbook listing along with supporting documentation, the Corporate Services Administrator and the JTSI Finance team will perform their review. The review involves, but is not limited to, manually checking if the expenses were appropriate for business purposes, coded correctly and in line with employment contracts.

  Due to the volume of transactions and limited timeframe before month end, it was evident that **not all expense items were reviewed in detail**. We identified instances where expenses were incorrectly coded thereby potentially impacting on any financial analysis. Similarly, we identified instances where duplicate payments were made and not identified in the manual review.
- Once reviewed, the Corporate Services Administrator and the JTSI Finance team will manually upload the expenses into Oracle in order to be processed through the system. This is done by manually copying over information from the cashbook listing into an Oracle journal spreadsheet to be uploaded. As this is also done manually, we identified an instance whereby the information was copied over and uploaded incorrectly.
- The manual review of the expenses in the cashbook listing is largely performed by the Corporate Services Administrator. This presents a **key person dependency risk** as there is only one person performing this review. It is acknowledged that the risk is somewhat mitigated as there is one other officer sitting in the Finance team that has performed this role historically. However, the lack of resources and limited timeframe to complete the review increases the risk of an incomplete thorough review of the expenses.

Our observations are corroborated by the following sample testing exceptions:

Country	Testing exceptions									
	Incorrect coding of expenses		Unable to test due to missing supporting documents		Incomplete and / or inadequate supporting documents		Unable to ascertain appropriate ness of expenses		Variance between sample and supporting documents	
	CC	NCC	CC	NCC	CC	NCC	CC	NCC	CC	NCC
China	-	-	3	-	-	-	-	-	-	1
Europe	-	-	-	-	7	1	-	-	-	1
India	-	-	-	3	-	6	-	-	-	-
Indonesia	6	-	1	1	-	-	5	-	-	-
Japan	9	4	1	1	4	1	-	6	-	1
Middle East	-	-	2	-	23	-	-	-	-	-
Singapore	-	-	-	4	-	1	-	-	-	-
South Korea	-	-	-	-	-	-	-	-	-	-

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4.3 Inefficient and manual nature of the financial management processes (cont.)

Moderate

Recommendations

R5: Strategically consider whether the current JTSI financial system is suitable to be rolled out to all the overseas offices and whether it would be fit for purpose to allow for end-to-end financial management and work flow capability between the overseas offices and JTSI Perth.

The objective is to decrease the risks associated with the manual nature of the process and increase the efficiency by which the JTSI Finance team can review and approve expenses and supporting documentation.

Given that the implementation of an appropriate system may be a long term solution, we have made further recommendations which can reduce the risks in the short to medium term:

R6: Review the current chart of accounts and reduce the number of account codes currently available for the overseas offices to code against. In the absence of the overseas offices accessing the financial system, we recommend building in drop-down options in the current cashbook listing for the overseas offices to select from a limited number of account codes applicable to the type of expense category to mitigate risk of human error.

R7: Incorporate a mechanism to record and capture vendor/supplier information, either through the financial system or manually in the cashbook listing. Apply the departmental vendor management processes specifically when engaging with new suppliers to ensure appropriate due diligence procedures are completed.

R8: Consistently manage corporate credit card expense by enforcing all corporate cardholders to utilise an appropriate system to acquit expenses instead of the manual credit card acquittal spreadsheet.

R9: Ensure the minimum expectations regarding expense review and verification by the overseas offices' office managers are clearly documented in the Overseas Office Administration Manual, along with the requirement to maintain appropriate supporting documents in a uniformed and structured manner.

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4.4 Gaps in policy and guidance provided to overseas offices

Moderate

Observations

The Treasurer's Instruction TI 701 under the Financial Management Act 2006 requires the establishment of a Financial Management Manual to ensure sound practices, procedures and policies are in place within an agency. We acknowledge that JTSI currently has in place a Financial Management Manual, but note that it should clearly outline requirements specific to the overseas offices, including but not limited to the processes and expected practices around the overall financial management, recordkeeping and reporting by the overseas offices.

i. Financial management polices

Pre-amalgamation

DPC had limited policy or procedural guidance around the financial management of their three overseas offices (London, Dubai and Tokyo). The version of their Financial Management Manual only included a very brief statement on the applicability of the Manual to the Overseas Offices and did not incorporate detailed definitions, processes and expected practices around general financial management. This resulted in the three overseas offices establishing their own internal policies and procedures and resulting in inconsistent practices.

Post-amalgamation

DSD/JTSI had an International Trade and Investment Offices' Administration Manual, and more recently the Overseas Office Administration Manual, which aims to set out consistent administrative practices and procedures for the overseas offices. Whilst this document covers a range of matters, we noted that there is a level of uncertainty and **inconsistent understanding of what expenses are deemed to be appropriate and business-related due to a lack of guidance** surrounding this matter.

ii. Travel policies

Pre-amalgamation

There was no formal and clearly documented DPC travel policy specific to the overseas offices, other than the Premier's Circular Guidelines for Official Air Travel by Government Officers. Refer to finding 4.6 for further discussion regarding compliance with the Premier's Circular.

Post-amalgamation

We noted that the **current and previous travel process was not clearly understood or applied**, and not prescriptive around what was required to be completed as it relates to the overseas offices, resulting in the exceptions from our sample testing as detailed in finding 4.6.

Recommendations

R10: Consolidate and streamline the current policy and procedural documentation for financial management and travel processes ensuring there is only one version of the document that is dedicated to the overseas offices. In doing so, establish a guidance to assist and create awareness in clearly defining what constitutes an appropriate business-related expense. Routinely review the policy and guidance documents ensuring currency of practices and timely communication to the broader network of overseas offices.

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4.5 Inadequate controls over the expense approval processes

High

Observations

As a result of the gaps in the policies and lack of consistent financial management processes, we identified that there are inconsistent application of the delegations of authority to incur, certify and approve overseas offices expenses.

i. Pre-amalgamation controls for ex-DPC offices

- For the offices previously under the administration of DPC, there was no formal documentation stipulating the processes and controls around the approval of the overseas offices expenses and Commissioner expenses. The absence of a clear and documented delegation of authority to approve expenses and lack of enforcement resulted in **instances of Commissioners approving their own expenses without any secondary review**.

  This was evident when no approval was provided for expenses incurred on the HSBC cards (London) and Diners Club cards (Tokyo) as DPC were unaware of the detailed transactions incurred on these cards. For example, there was **limited evidence or approval to support the business-related nature of a number of expenses** incurred on the HSBC credit cards, such as entertainment expenses at members-only clubs and clothing expenses.

ii. Post-amalgamation controls for all overseas offices

- There is **a lack of clarity on which officers are able to approve, incur and certify payments** in the overseas offices, and what these roles entail.

  A recent communication from JTSI Finance appears to limit the Commissioners and Agent-General as the only incurring officer in most offices, meaning that he/she needs to incur (i.e. review and sign) all expenses. Whilst it is reasonable to expect the Commissioner or Agent-General to *approve* most expenses in their office (except their own), it is unclear why they should be the only *incurring* officers. In smaller offices, this can create bottlenecks, especially in the event the Commissioner is absent, on leave, or travelling.

- Further, given the lean structure in the overseas offices, there appears to be a **lack of segregation of duties in the local procurement and payment** process, where the same person who sources quotes often also receives the goods/services, prepares payment vouchers and reconciles financial records. Whilst there may be a separate personnel approving the expenses, it does not mitigate the risk completely.

- A further lack of clarity relates to the understanding of the timing of when expenses must be approved. i.e. if it should be pre-approved before incurring the expenses either by the Commissioner or by the Perth office or after the fact. We identified an instance where an employee was reimbursed an amount prior to obtaining approval from the Commissioner, who was on leave at the time. We understand that upon the Commissioner's return to office, the voucher was signed.

- Our sample testing identified instances where we were **unable to determine if the expenses incurred were deemed reasonable to be approved as business-related**. There was limited or inadequate supporting documentation to justify the expenses as business-related or demonstrate compliance with policies. This raises concerns regarding the legitimacy and validity of the expenses, which warrant further exploration to determine the validity and/or appropriateness of the expenses. For example:
  - Glass tinting of a Commissioner's Office car amounting to $320;
  - Medical health screening program in Thailand incurred by a previous Commissioner amounting to $0.6k.

- Instances were identified where an employee incurred a credit card expense on behalf of a Commissioner. However, as the employee's credit card is approved by the Commissioner, and if it is not flagged by the Perth Account Officer, this essentially means that the Commissioner has approved his/her own expenses.

These observations are further corroborated with the exceptions identified through sample testing of expenses, as illustrated in the table overleaf.

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4.5 Inadequate controls over the expense approval processes (cont.)

High

Country	Testing exceptions							
	Approval of own expenses		Missing employee signature on supporting documentation		No approval / certifying signature		Purchase of items not aligned with contract/ policy	
	CC	NCC	CC	NCC	CC	NCC	CC	NCC
China	-	1	1	-	1	1	1	-
Europe	6	-	1	-	-	4	-	-
India	-	-	-	-	1	1	2	-
Indonesia	-	-	-	-	2	9	-	-
Japan	-	14	-	5	2	5	1	5
Middle East	-	-	-	-	-	-	-	-
Singapore	-	-	1	-	-	1	-	-
South Korea	-	-	-	-	-	-	-	-

Recommendations

The consideration of a suitable financial system implemented across all offices as noted in R5 may contribute to addressing his finding. An electronic, work-flowed purchase order and invoice approval system would generally have in built system controls to improve segregation of duties and enforce appropriate delegations.

R11: Review and clearly document the delegations of authority as they relate to the overseas offices, including what the role of incurring, certifying and approving officer entails and who is able to fill these roles. In establishing these roles, due consideration needs to be given to maintaining adequate segregation of duties between the expense incurrer and approver.

The process for seeking and documenting approval, exemptions for when the Commissioner is unavailable and mandatory approval timeframes should also be documented.

JTSI should also consider the acceptance of electronic signatures or approvals via email as alternatives to physical signatures on hardcopy documents where appropriate.

This can be actioned in conjunction with R9.

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4.6 Inconsistent travel-related expenses processes and controls and lack of monitoring

High

Observations

There was no documented travel-related guideline that clearly prescribed the process around incurring travel expenses. Whilst JTSI maintains a departmental Travel Policy document issued in 2017, it did not appear to clearly step through the process to request and approve expenses, resulting in inconsistently applied processes. Further, pre-2017 a policy position as applied which appears to be in contradiction to the relevant Premier's Circular on Travel.

i. Inconsistent process to request and approve travel-related expenses

Pre-amalgamation

The Premier's Circular *Guidelines for Official Air Travel by Ministers, Parliamentary Secretaries and Government Officers* ('the Premier's Circular') details the process and approvals required for international air travel by government officers, which includes Commissioners and Agents-General.

The Premier's Circular states that all international travel requires approval from the Premier, which should be supported by a business case justifying the reason for the travel.

For the three offices which were under administration of DPC prior to 2017, we were advised the practice was that they did not need to report on international travel, as long as it was within their "area of responsibility". We were unable to obtain evidence of formal written approval of this, which appears to be in contradiction to the Premier's Circular.

Post-amalgamation

The 2017 JTSI Travel Policy document states that the Conference and Travel System (CATS) is to be used to process all travel requests and approvals. However, we noted the following:

- Not all overseas offices have access to the CATS system resulting in inconsistent methods to request, record and approve travel related expenses, as evident in the table of exceptions on the right. **Inconsistent use of the system impacts the completeness and accuracy of travel-related data** and impedes the ability to routinely monitor and analyse the data. This was further evidenced when we requested travel data to perform analysis and was provided with a spreadsheet containing manually extracted information from the CATS system and complied from other sources, rather than from a single system repository or a system-generated report.
- Whilst quarterly reporting of overseas travel is submitted to Parliament in line with the Premier's Circular, we noted that there was no other form of routine reporting on travel related-expenses performed internally. Further, the reporting only captures overseas air travel and not travel by rail or bus, which is a frequent mode of international transport in the Europe and Asia regions. Therefore, **there does not appear to be an internal mechanism to accurately and completely record, monitor and reconcile travel-related expenses.**

Country	Testing exceptions					
	Missing travel proposal		No evidence of travel approval		Inconsistent with Travel Policy	
	CC	NCC	CC	NCC	CC	NCC
China	-	-	-	-	-	-
Europe	-	-	-	-	-	-
India	9	-	-	-	2	-
Indonesia	2	-	-	-	-	-
Japan	-	-	-	3	-	-
Middle East	-	-	-	-	-	-
Singapore	-	-	-	-	-	-
South Korea	-	-	-	-	-	-

ii. Inefficiencies in current travel approval process

To address the lack of prescribed documented travel related process, in the third quarter of FY19, the JTSI IETI division published a separate travel document specific for the overseas offices with the aim of building a common understanding of the end-to-end travel process. We were informed that this published and implemented document was not formally endorsed by the JTSI Executive or Director-General.

Whilst the document captures a more detailed and prescriptive process, it has created inefficiencies in the day-to-day operations of the overseas especially at the approval phase. The current travel expense approval process requires up to 6 approval signatures, 6 weeks before any travel is made. We were informed that this has hindered the overseas offices ability to attend key conferences or meetings that have come up on short notice as the process does not allow for such instances. We note that the lack of a detailed forward work plan, including potential travel requirements, exacerbates this issue.

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4.6 Inconsistent travel-related expenses processes and controls and lack of monitoring (cont.)

High

Recommendations

R12: Review and refresh a streamlined travel process guideline and policy, endorsed and communicated to the overseas offices to ensure a consistent approach and understanding of the process by all overseas offices. We further recommend revisiting the current travel request and approval process to better reflect good practice whilst ensuring compliance with mandatory requirements and business-as-usual activities are not unduly disrupted.

R13: Introduce an appropriate and value-for-money system to the overseas offices that do not have access to it, educate and build awareness around the important role the system plays to enforce system adoption.

R14: Implement monitoring routines and internal reporting to ensure travel related expenses incurred are in line with relevant policies; delegations of authority; annual work plans; and where relevant, employment contracts.

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4.7 Enhancement to the overall framework around the management of remuneration and entitlements

Moderate

Observations

The HR and Finance functions in JTSI (and previous DPC) play an integral role in the management of remuneration and entitlements for the Commissioners and Agents-General at the overseas offices. Whilst the controls have improved since 2017, we identified instances whereby the operating effectiveness could be further enhanced.

i. Control environment pre and post-2017

When the London, Dubai and Tokyo overseas offices were under the administration of DPC, the controls over the management of remuneration and entitlements were not designed and operating effectively to prevent and detect duplicate claiming of allowances, which contributed to the matters outlined in the CCC report on the WA Commissioner in Japan.

This issue was amplified by the lack of review over expenses paid as detailed in finding 4.3 and that the two key functions that were responsible for the payment of allowances, being HR and Finance, were not aware of what was being paid out from each stream.

Whilst now under the administration of JTSI, the controls in both Finance and HR are designed well, however not operating effectively as demonstrated by the number of exceptions identified from the sample testing performed, as illustrated in the table overleaf.

The majority of these are due to **insufficient evidence of appropriate approvals being obtained, or missing supporting documentation**.

The two exceptions related to the Japan Office are for the previous Commissioner who claimed an allowance for storage which does not appear to be in his employment contract; and rent/accommodation expenses which were in excess of the capped amount in his contract.

ii. Items requiring further investigation

Our testing identified a number of one-off allowances / entitlements / reimbursements where we were **unable to determine the appropriateness of the allowance expense, despite there being appropriate approval provided**. We note these have not been included in the table overleaf.

For example:

- A Commissioner's Child Supplement allowance expense that does not appear to be explicitly included in their employment contract as seen in other employment contracts, amounting to $2.2k;
- Hospital expenses (pre and post surgery) and medical accessories for the a Commissioner's spouse amounting to $5.9k; and
- Education allowance for a Commissioner's child's University fees amounting to $6.6k.

Similarly, the following were identified from the general expenses testing which relate to potential entitlements paid via reimbursements:

- Purchase of appliances (dishwasher, oven, refrigerator, etc.) for a Commissioner's residence amounting to $7.9k. The employment contract states that '*the Government will meet the full cost of the rent and reasonable utility costs for an appropriately furnished dwelling in accordance with the provisions of the Department of Foreign Affairs and Trade Human Resources Manual Volume 2 Overseas Conditions of Service*", however there is no clarity around what is considered to be "appropriately furnished".
- Expenses related to a Commissioner and a Agent-General's household items (furniture, crockery, etc.) that is not clearly detailed in their employment contracts whether it is part of the entitlement.

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4.7 Enhancement to the overall framework around the management of remuneration and entitlements (cont.)

Moderate

Country	Testing exceptions					
	Expenses not aligned to employment contract		Insufficient approval		Missing* documents	
	Salary	Allowance	Salary	Allowance	Salary	Allowance
China	-	-	-	-	-	1
Europe	-	-	1	-	1	-
India	-	-	-	-	-	-
Indonesia	-	-	-	1	-	-
Japan	-	2	3	4	1	-
Middle East	-	-	1	2	1	2
Singapore	-	-	-	-	-	1
South Korea	-	-	-	-	4	-

**Missing documents also includes documents that were not created/did not exist at the respective point in time.*

Recommendations

R15: Clearly document and implement a policy and procedural framework governing the allowances and reimbursed expenses. This should include:

- Clarity of the specific roles each responsible function has for in the management and oversight of remuneration and entitlements (e.g. Finance, HR and IETI). This can be captured as part of the RACI matrix referred to in R1.
- Revise and streamline the current allowances and entitlements to establish a suite of standard allowances and entitlements across all offices, to mitigate the risk of allowances being inappropriately claimed, paid or incorrectly treated from a tax perspective.
- A 'Frequently Asked Questions' summary for Commissioners and Office Managers which outline what type of expenses can be claimed under each entitlement, and what approvals are required for non-standard expense claims.

R16: Investigate the specific examples listed of potentially inappropriate use of entitlements, to determine whether they were appropriately claimed as per the relevant employment contract.

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4.8 Improve the controls in place to prevent and detect duplicate claiming of allowances

Moderate

The controls in place to prevent and detect duplicate claiming of allowances has improved since 2017 and we did not identify any direct comparable examples of duplicate claiming of allowances occurring in the other offices. However, there are opportunities to further improve the controls and minimise the risk of similar fraud occurring through different means.

In their report on the WA Commissioner in Japan, the CCC alleges that the previous Commissioner had been claiming cost of living expenses in duplicate for a number of years and that this remained undetected by the Department of the Premier and Cabinet ('DPC') who had responsibility for the Tokyo office until 2017.

In summary, it is alleged that the cost of living expense entitlement was being paid via payroll as part of the monthly salary; and through accounts payable as part of the monthly expenses.

i. Nature of the alleged duplicate claiming prior to 2017

As part of the internal audit, we obtained the historical general ledger data on the overseas offices previously under the administration of the DPC, being London, Dubai and Tokyo.

Through data analysis and inquiry, we identified the manner in which the previous WA Commissioner in Japan was allegedly claiming duplicate cost of living allowances.

In summary, Mr Peacock was allegedly being paid a cost of living allowance of $2,552.58 as part of his monthly salary; as well as a cost of living allowance of ¥508,322 (approximately $5,300.00) claimed from the Tokyo bank account as part of the monthly expenses.

ii. Nature of the alleged duplicate claiming since 2017

In 2017 the Tokyo office (along with London and Dubai) came under the administration of JTSI which resulted in JTSI requiring these overseas offices to adopt their financial management processes, which includes a monthly transaction report to be submitted to JTSI Finance along with supporting invoices and receipts for all transactions. It was during the review of this information that the alleged duplicate claiming came to light.

We noted the manner in which Mr Peacock allegedly claimed duplicate cost of living expenses since 2017 when the Tokyo office came under the administration of JTSI.

Similar to the arrangement under DPC, Mr Peacock was allegedly being paid a cost of living allowance of $3,085.17 as part of his monthly salary; as well as a cost of living allowance of ¥372,804 (approximately $4,300.00) claimed from the Tokyo bank account as part of the monthly expenses.

iii. **Improvements in controls since 2017**

The key difference in the level of controls since 2017 is the fact that JTSI Finance undertakes a review of the monthly expense data and supporting invoices received from the overseas offices and identifies transactions which appear inconsistent or anomalous.

Finance queries any anomalous transactions with IETI or the HR team, depending on the nature of the transaction, and also regularly queries transactions and requests further supporting documentation from the overseas offices.

iv. Mitigating the risk of duplicate claiming of allowances

As part of the internal audit, to test the effectiveness of the controls around entitlements, we selected a sample of 80 remuneration and entitlement transactions (10 for each of the overseas offices since 2009). This included coverage of all current and previous Commissioners and Agents-General.

We tested the validity of the transactions by comparing it back to supporting documentation, such as the Commissioners employment contracts to ensure the payments were in line with the individual's contracts. We also tested the breakdown of the relevant salaries and wages accounts to ensure that there were no allowances being claimed in duplicate for that pay period.

Our testing **did not identify any exceptions which would indicate evidence of directly comparable instances of duplicate claiming of allowances occurring in the other offices**. Further, the improvements in the control since 2017 as outlined above assist with reduces the overall risk of duplicate claiming of allowances remaining undetected.

Notwithstanding this, there are **opportunities to further improve the controls and minimise the risk of similar fraud occurring through different means**.

In particular, we recommend that the payment of allowances be consolidated in one payment as part of the Commissioners and Agent-General's monthly salary and that no allowances should be claimed via the monthly expenses form the office bank account.

Further, there should be an annual reconciliation of the amounts paid to the Commissioners and Agents-General via payroll (and monthly expenses until such time it ceases) to their employment contract to ensure there are no over- or underpayments.

Recommendations

R17: Consolidate the payment of Commissioners and Agents-General allowances into one payment, to be paid via payroll as part of the monthly salary. No allowances should be claimed or paid via the monthly expenses from the office bank account.

R18: Conduct an annual reconciliation of the amounts paid to the Commissioners and Agents-General via payroll to their employment contract to ensure there are no over- or underpayments.

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4.9 Inconsistent treatment of employment contracts and conditions of locally engaged staff

Moderate

Observations

The JTSI Perth office (and previously DPC) have no oversight of the recruitment of locally engaged staff at each overseas offices. Recruitment, employment contracts and conditions are facilitated and approved locally by the Commissioners and Agents-General with no involvement from head office. We acknowledge the recent push to utilise in-country recruitment agents and labour hire in order to recue the risk of dealing with cross-jurisdictional labour legislation.

i. Oversight of the locally engaged staff

Each overseas offices have an average of 5 locally engaged staff members and a standard office would generally consist of an Office/Administrative Manager, Business Development Manager, Marketing Manager, sector manager and administrative assistants. Most locally engaged staff are hired through local recruitment agencies, however there were some office that recruit employees directly.

Remuneration and entitlements for the locally engaged staff are paid by JTSI through the monthly recoupment exercise via the cashbook listing. Payment vouchers (or equivalent documents) are signed and approved by the relevant Commissioner/Agent-General along with any supporting receipts and invoices are sent to Perth for review. However, we note that **the review of expenses is not performed against any locally engaged staff employment contracts and conditions** stipulated in it. This exposes the risk of payments made that do not accurately align to the contractual agreements, thereby placing full reliance on the relevant Commissioner or Agent-General to ensure the expenses are accurate and in line with contracts.

ii. Risk of non-compliance with local employment and/or tax legislation in Japan

Our fieldwork in the Japan office highlighted that the locally engaged staff are currently being paid gross salaries directly with no deductions made for payroll taxes or labour insurances.

The locally engaged staff were advised by the previous Commissioner that each employee is responsible for their own tax affairs. Whilst further exploration of this matter was not within our audit scope, we have raised it on the basis that there is a **potential risk exposure to non-compliance with local payroll and/or tax legislation**. It is noted that the Japan office may have a special exemption as a result of the nature of the incorporation of the office however the current acting Commissioner and office manager were unaware of the reasons behind this arrangement.

iii. Locally engaged Office Manager role

It became clear during our fieldwork that the locally engaged Office Manager role is critical in terms of the financial management and administration of the overseas offices. However, at present they have no direct reporting line to JTSI Perth as they are fully accountable and report only to the relevant Commissioner/Agent-General.

Their independence is further impacted by the fact that they are employed locally and the Commissioners/Agents-General are responsible for their employment and performance management.

There is an opportunity to empower this role by providing them greater independence from the relevant Commissioner/Agents-General and connecting them formally to the JTSI Perth Finance team, recognising the key role they can play in enhancing the overall governance and control environment at their respective offices. A formal or dotted line to the JTSI Perth finance team may also assist in professional oversight and learning of a technical and financial capability nature.

Recommendations

R19: Implement and communicate a standard policy position that all overseas offices should consistently recruit via a reputable local recruitment agency and to involve Perth HR to ensure contractual conditions are largely aligned to other JTSI employee contracts where possible.

Further, the basic recruitment and screening requirements should be aligned with Perth practices. JTSI Perth should also obtain a copy of the locally engaged staff contracts to enable them to perform review of expenses against contract on an ad hoc basis, noting that Singapore locally engaged staff contracts are already held by JTSI.

R20: Investigate the issue of gross salaries in Japan and obtain appropriate advice to rectify if required. *We note this will need to be considered in the context of clarifying the nature of the incorporation of each overseas office and what the legal and taxation implications are.*

R21: Consider implementing a functional reporting line between the Office Managers and the JTSI Perth Finance team; and allocate greater responsibility to the role of the Office Manager in enhancing the overall governance and control environment at their respective offices.

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4.10 Data limitations and anomalies requiring further investigation

Moderate

Observations

Expenses, travel and payroll data was obtained to profile the total spend by office, employee and expense type. Data profiling was used to identify anomalies in spend (e.g. unexpected peaks, outliers against other offices etc.) to inform a sample of expenses to test key controls for the eight overseas offices.

Due to limitations with the data, a detailed analysis could not be performed in order to consider other dimensions when selecting a risk-based sample.

A 'source of truth' could not be obtained to check the accuracy and completeness of the data. While this mainly attributed to organisational structure changes over the last ten years, the number of different systems and data capturing methods resulted in inconsistent data. This was in regards to the type of data, level of detail, and the frequency in which data is summarised.

Additional flags to help filter data will enable focused analysis where required. Examples of fields to begin capturing may include flags to differentiate Commissioner spend, supplier names, and second level categories to break down business related expense.

Where data can be relied upon, detailed analysis could be performed to provide insights into activities to provide assurance as to compliance with policies, procedures and controls, to flag potential areas of non-compliance or concern; and to enable spend patterns and/or potential efficiency savings to be identified.

Examples of good practice data analytic routines could include the following:

- Procurement – timeliness of purchase order creation, approvals, invoice creation and payments; appropriate approvals on orders; duplicate invoices and payments; order and invoice mismatches; transactions outside of business hours; supplier master file key fields with missing values
- Credit Cards – timeliness of coding, approval and posting of transactions; transactions with no receipts where required; transactions made on leave; credit cards active post-termination
- Payroll – duplicate employees, employees with >25% increase between payslips, unauthorised changes to payroll/run data, payments to terminations, employees with high leave accruals, employees with high overtime and low hours of leave

While the internal audit considered 480 samples, there were other anomalies that warrant further investigation by Management. Some examples include:

- Cab fares paid via credit card incurred by an Officer in the Singapore office, amounting to $9k;
- Transactions coded to the Credit Card Clearing Account in the amount of $35k;
- Transactions potentially incorrectly coded by using the filter in the Travel and Remuneration dashboards; and
- Instances where key fields are missing, e.g. credit card expenses transaction details with supplier fields marked as "0" or ".".

Recommendations

R22: Implement a program of data analytic routines to monitor procurement, credit cards and payroll transactions.

R23: Review the anomalies identified within the observations and consider if further investigation is warranted.

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4.11 Lack of clarity and consistency in the overseas offices' administration of co-located staff from other agencies

Minor

Observations

The overseas offices are the primary international representatives of the State and as such, other agencies have often leveraged the opportunity to have an in-country representative co-located with the JTSI office. For example, Tourism WA have several officers co-located with JTSI offices, such as China and Japan; the Department of Health had a representative in London in the past; and Perth Mint continues to have a presence in China.

The arrangements between the other agencies and JTSI with regards to the co-location of their representatives is different in each case.

For example:

- In the past, the Department of Health had a representative based in the London office. This staff member had a corporate credit card connected to the London office's bank account and all her expenses was coded and checked by the JTSI Finance Manager in London and provided to her manager in the Department of Health in Perth. The Department of Health would periodically provide a bank transfer of a fixed amount to cover the cost of the credit card expenses and a reconciliation was maintained by the Finance Manager. However, the ultimate responsibility for the appropriateness of the expenses rested with the Department of Health, not JTSI or the London office.
- All expenses related to the Tourism WA representative in China was signed off by the JTSI Commissioner in China, although it was not clear to what purpose, as the Commissioner was not reviewing the validity or appropriateness of the expenses as such. The expenses were paid from the China office's budget and recouped from Tourism WA via an invoice from JTSI.

We note in some cases the arrangements were governed by formal agreements, whilst in other cases it was through exchange of emails or other correspondence.

Whilst it is understandable and appropriate for other agencies to leverage the in-country presence, there is a **risk that there was a perception or expectation that the responsibility for ensuring the representative's expense are valid or appropriate would rest with JTSI** as it was being paid through the offices' bank accounts; whilst in practice the overseas offices would have limited visibility of this and viewed it purely as an administrative process.

Recommendations

R24: Establish a set of high level core considerations to act as the baseline conditions when confirming the administration arrangements of other agencies' representatives by the overseas offices.

The focus should be to increase consistency, reduce the administrative burden and reduce the risk on JTSI and the overseas offices.

It may be necessary to review any current arrangements against these principles and seek to make adjustments where required.

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5.1 Lack of comprehensive and coordinated fraud control strategy

Moderate

Observations

To understand the fraud and corruption control environment present in JTSI's overseas offices it is necessary to consider JTSI's organisation-wide framework, and how this is being applied in and to these offices.

This review considered the adequacy of JTSI's policies, procedures and systems to prevent, detect and respond to fraud and corruption risks against the Australian Standard for Fraud and Corruption Control AS8001:2008 (the Standard) and KPMG's experience of public sector agency better practice.

Effective fraud and corruption risk management programs address the three key elements:

- ***Prevention: controls designed to reduce the risk of fraud and corruption from occurring;***
- ***Detection: controls designed to discover fraud and corruption when it occurs; and***
- ***Response: controls designed to take corrective action and remedy the harm caused by fraud and corruption.***

It appears that JTSI has recently effectively documented a number of the minimum expectations as per the Australian Standard, at a baseline level.

However, JSTI **does not currently have a comprehensive Fraud and Corruption Control Plan** or equivalent policy document in place. We note there are certain supporting associated policies and procedures are in place (e.g. conflicts of interest, gifts policies), however these do not clearly reference the overseas offices and are not tied together in an integrated fraud control strategy.

Without a comprehensive and integrated plan in place, it is difficult to coordinate fraud and corruption risk management initiatives effectively; potentially diminishing JTSI's ability to adequately prevent, detect and respond to fraud and corruption.

A Fraud and Corruption Control Plan should document JTSI's approach to controlling fraud and corruption exposure, detail the intended action in implementing and monitoring the fraud and corruption prevention, detection and response initiatives.

The plan should be reviewed and amended at appropriate intervals (good practice suggests every two years) and allocate responsibility to key positions. The plan elevates the importance of the strategy and expectations set by JTSI's Executive and ties-in relevant policies, procedures and the risk assessment.

Recommendations

R25: Draft and implement a Fraud Control Plan in line with the Australian Standard, which consolidates all existing policies, procedures, and initiatives into a single, reviewable and accountable document and clearly reference aspects specific to the overseas offices.

We note that this extends beyond consolidating all the policies into one document; and includes ensuring that the various fraud polices are aligned, integrated and complement each other.

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5.2 Lack of clarity regarding the responsibility structure for fraud risk management

Moderate

Observations

The Standard states (at section 2.4.3): "The Fraud Control Officer (if appointed) should have responsibility for coordinating fraud and corruption resources are coordinated so that they work together in a coordinate fashion in way that achieves the objectives set out in the Fraud and Corruption Control Plan".

From our discussions with staff, Commissioners and the Agent-General, it appears **the person responsible for managing fraud and corruption in JTSI is presently not widely known**.

It is beneficial to have a nominated Integrity or 'Fraud Control' officer to drive fraud and corruption risk management throughout the organisation. This role should be visible and known to all employees in the organisation and can be the central point responsible for:

- Delivering and ensuring completion of fraud and corruption training programs;
- Coordinating escalation of issues to relevant senior management, Public Interest Disclosure and other reporting to the Corruption and Crime Commission and Public Sector Commission;
- Coordinating or conducting integrity related investigation activities;
- Sharing awareness of emerging fraud and corruption trends and responsibilities for registering issues with employees and providing a trusted independent reporting options outside their line management;
- Maintaining and providing independent oversight of all conflicts of interest declarations;
- Providing oversight of all gift, benefits and hospitality declarations;
- Contributing to annual fraud directed internal audit planning and other fraud detection measures based on intelligence and prioritised risk areas;
- Maintaining the currency of fraud and corrupt risk and control assessments (every 2 years);
- Ongoing awareness raising of emerging fraud and corruption trends and responsibility for registering issues.

Recommendations

R26: Ensure that an appropriate role and suitably experienced person is allocated responsibility for coordinating and monitoring all aspects of fraud and corruption prevention and detection measures.

The existence and profile of this role should be elevated within the organisation.

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5.3 Inadequate fraud and corruption awareness and whistle-blowing mechanisms

High

Observations

The Standard states (at section 3.7):

- ***Every staff member should have general awareness of fraud and corruption and how he or she should respond if this type of activity is detected or suspected***
- ***Entities should regularly communicate to staff a clear definition of the types of behaviour that constitutes fraudulent or corrupt practices, the fraud detection measures that are in place and an unequivocal statement that fraudulent and corrupt practices within the entity will not be tolerated.***

Further, the Standard at 4.4 state that "Entities should ensure that adequate means for reporting suspicious or know illegal or unethical conduct are available to all personnel. And at 4.4.3 "internal and externally operated alternative reporting lines should allow anonymous reporting".

i. Increase the awareness of fraud and corruption matters

Responses from all Commissioners, the Agent-General and other staff interviewed suggest that prior to the issues raised in the CCC report, **ongoing communications and staff awareness of fraud and corruption control initiatives was not seen as fully effective or prioritised**.

Research consistently demonstrates that the most effective fraud detection mechanism is whistle-blower reporting of suspicious conduct to managers or via dedicated reporting mechanisms, with 60% of frauds detected in this manner. Reporting frequency is positively related to employee confidence in the organisation's zero tolerance culture, and access to and knowledge of safe reporting mechanisms.

We understand that in the past, JSTI provided materials and face-to-face Accountable & Ethical Decision making training to Perth-based staff and overseas Commissioners and Agents-General. Whilst similar material has historically been distributed (i.e. on induction), face-to-face training was conducted on an as-needs bases rather than a mandated annual program. This appears to have been prioritised with all of the Commissioners interviewed having received it, although some advised they had only received this training for the first time recently.

All Commissioners advised **none of their locally engaged staff had received any training program from JTSI**, though all confirmed they could see the value of it going forward. Some advised that they had briefed their staff themselves, but that this was not a formal program and was not required by JTSI. We note that locally engaged staff do have access to the Overseas Administration Manual (as of 2019), which contains relevant policies including the Code of Conduct.

ii. Improve the awareness of and access to whistle-blowing mechanisms

Whilst JTSI has a Public Interest Disclosure (PID) Policy, there is **no external independent reporting option and there appears to be a lack of awareness of the reporting options available** to staff, in addition to barriers for the locally engaged staff to report their concerns.

- JTSI has a PID Policy as its primary reporting mechanism to protect whistle-blowers (along with the option to externally report to the CCC). JTSI's PID policies and procedures set out the protections and reporting processes that enable a whistle-blower to report within the protections of the WA Public Interest Disclosure Act (WA). The opportunity to receive information anonymously increases the chances that the early warning signs of fraud and corruption are detected, which the Public Interest Disclosure regime does not facilitate.
- It appears there may be **additional barriers to locally engaged staff reporting suspected fraud or misconduct** via JTSI regular whistle-blowing reporting mechanisms (line manager, senior management or the Public Interest Disclosure Officer). These include geographical distance and lack of engagement with broader JTSI staff, a lack of understanding of what constitutes reportable behaviour, reported instances of cultural reluctance to report on superiors, and immediate reporting structures siloed to one position (the Commissioners / Agent-General). A locally engaged long term office manager advised that they would not know where to report concerns if they had them about their Commissioner, and that they probably would not report to an anonymous report line / email, given the uncertainty of protections.
- All Commissioners and the Agent-General confirmed they have awareness of the PID processes, though not all knew who the current PID officers are. Ideally, current PID officers and the reporting processes should be regularly publicised, beyond updates to the intranet. This may be through regular face to face sessions, emails bulletins, or posters on the office walls.
- All Commissioners interviewed confirmed they saw benefit in all locally engaged staff being properly educated in available reporting options. Most advised their staff would not know who the PID officers were. Two Commissioners advised they thought that local staff would not report to Perth if they had a concerns, as they felt they would be unlikely to contact someone they had not met or did not trust. We were informed about concerns of limited contact between JTSI Perth and locally engaged staff (outside the Finance team) including the nominated PID officers. A number of Commissioners noted that sending Officer Managers for training in Perth would enable staff to make connections, understand the Department's culture and receive professional development. Some Commissioners advised that visits from a Perth office representative to deliver face-to-face training could be beneficial to enable tailored and interactive delivery and emphasis its importance.

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5.3 Inadequate fraud and corruption awareness and whistle-blowing mechanisms (cont.)

High

Recommendations

R27: Acknowledging and building on the baseline principles established through the Accountable and Ethical Decision-making training, develop a fraud and corruption training which includes the following:

- Training on induction which includes, amongst other things:
    - Overview of the fraud risk management framework, including relevant policies and procedures;
    - General awareness of fraud and corruptions risks;
    - Whistle-blower and PID reporting;
    - Gifts and benefits reporting;
    - Conflicts of interest reporting; and
    - Practical examples and case studies of fraud and corruption risks, with specific examples relevant to the overseas offices.
- Annual refreshers and refresher publications to all staff (including locally engaged staff).

R28: Consider introducing an anonymous and culturally appropriate reporting capability for JTSI overseas office staff.

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5.4 Limited formal assessment and audit of fraud and corruption risks and controls

Moderate

Observations

The Standard states (at section 3.6):

- ***Entities should adopt policies and processes for the systematic identification, analysis and evaluation of fraud and corruption risk ('risk assessment') and periodically conduct a comprehensive assessment of the risks of fraud and corruption within their operations.***
- ***The most important outcome of the fraud and corruption risk assessment process is the development of an effective anti-fraud and anti-corruption program.***

i. Undertake a fraud-specific risk assessment

JTSI has an organisation-wide risk assessment which, whilst outdated, does include relevant fraud and corruption risks, controls and ratings.

However, we understand that the **overseas offices have not historically been involved in a risk assessment process**.

Good practice indicates that fraud and corruption risks should be assessed through a robust, ideally stand-alone, risk assessment that consults with all parts of an organisation, to understand risks and effectiveness of controls specific to each business area. Further, as risks and controls evolve over time and as fraud events occur, they should be factored into the risk assessment. Once completed, the risk assessment should be formally revisited every two years and controls should be more explicitly described than they are in the existing risk assessment.

ii. Enhance the current approach to internal audit

Given the distance and variations in staff training, understanding and oversight, the overseas offices would **benefit from being involved in an ongoing annual audit program** (that includes amongst other things, fraud and corruption-directed testing procedures).

From discussions with Commissioners and our review of JTSI's internal audit program records it appears that audit activity of the overseas offices has been limited. Past audit records examined reveal that in 2016, the ex-DPC offices Dubai and London were audited, and in 2012 the Indonesian office's payment processes were audited. We understand from discussions with Commissioners that audits of the overseas audits are not regularly undertaken by JTSI, but that certain overseas offices procure external accountants to prepare financial statements on an annual basis (and in the case of China, monthly bookkeeping services). We understand these independent reports are forwarded to the JTSI finance team, but they do not mandate this process.

In a mature fraud risk program, the integrity officer should provide insight and input into the audit program for the coming year, building in any industry trends, past control weaknesses detected or any thematic areas of misconduct detected in the prior period.

Recommendations

R29: Conduct a fraud and corruption risk assessment engaging stakeholders across the organisation, and set a mandatory review period of at least every two years.

The indicative assessment, and top 10 fraud risks, listed in this report could be used as a starting point for this.

R30: Integrate the outcomes of the risk assessment to the Fraud and Corruption control program (i.e. adjust controls, audit programs, data analytics to focus on higher risk or areas with insufficient controls).

R31: Implement an ongoing internal audit program of the overseas offices, with input from the person with responsibility for integrity matters and outputs from the fraud and corruptions risk assessment.

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5.5 Improvements required for key fraud control strategies

Moderate

Observations

There are a number of opportunities to improve the fraud and corruption detective controls.

i. Conflict of interest reporting

JTSI policies require declaration of potential, perceived and actual conflicts of interest which are reported to line managers. From our discussions with staff we understand that reporting is occurring, but in some cases **it remains in the overseas office and with no oversight from Perth head office.**

Commissioners and the Agent-General confirmed that if conflicts of interest were to be declared that they would report them to their line managers in Perth. Our interviews found that some Commissioners felt their **locally engaged staff would currently struggle to understand the complexities of what types of matters constitute a reportable conflict** of interest or how to report. Whilst they confirmed they had personally briefed their staff, this was described as an area of weakness attributable to both a lack of training and cultural differences.

We understand from our discussions that occasionally locally engaged office staff may have knowledge of a potential future business deals or other commercially sensitive information. JTSI currently require their WA public service staff to declare investment holdings upon recruitment, but this is not revisited during the course of employment or applied to locally engaged office staff.

Conflicts of interest reporting would be more independent and effective if it is centrally monitored with input from the Integrity Officer.

ii. Gifts and benefits

JTSI's current policy sets out a series of requirements and considerations in relation to the receipt of gifts and benefits. Perth-based staff are required to complete a form and use the intranet base reporting. Due to IT limitations, overseas office staff have not been using this reporting and approval tracking system, with some using the reporting forms and others recording every gift and benefit received in their local office gifts and benefits register. Some Commissioners commented on the onerous obligation of reporting every coffee (or similar), but the policy requires staff to report the receipt of all non-token gifts (<$25 in value), which indicates there may be a gap between the policy and staff understanding of the requirements that could be rectified through training.

We understand that the **overseas office gifts and benefits registers have not been routinely provided to the Perth head office**, even though the policy requires that the Integrity Officer receives the forms for reportable gifts and benefits.

iii. Supplier on boarding

When on-boarding new suppliers, Finance conduct an ABN lookup to verify the legitimacy of the business against the invoice. To reduce the risk of payments to false vendors, fraudulent bank accounts changes within the vendor database or conflicts of interests between companies and employees, good practice organisations strengthen their resilience by:

- Requesting a copy of a bank document demonstrating the company name and bank account number;
- Requiring the verified documents to be sent direct to Finance in the first instance and again for any changes (rather than via the incurring staff member); and
- Requesting the new supplier provide an ASIC records demonstrating their company directors any shareholder structure.

We understand there are variations to this process due to the ability and need of the overseas offices to complete checks. To enable monitoring of vendors and vendor spend it would be beneficial for Finance to be provided with a listing of all ongoing vendors paid by each office. Please refer to page 18 for further comments regarding vendor management.

iv. Fraud-based data analysis

JTSI's detective mechanisms for the overseas offices include reviews of the cash book, credit card statement, bank accounts, expense requisition and claims. These are prepared and by the overseas Office Manager and reviewed by the Perth Finance team. Whilst we understand manual reviews are undertaken, there is a risk they may also not detect patterns of spending over time that could facilitate fraudulent or corrupt activity or simply failures in controls /non-compliance. Please refer to page 18 for further comments regarding the manual nature of the financial management system.

JTSI should implement a regular program of fraud detection analytics on high risk areas, such as corporate credit cards, procurement and accounts payable, although we note this would require the data to be structured in a certain manner. Please refer to page 30 for further comments regarding data analysis.

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5.5 Improvements required for key fraud control strategies (cont.)

Moderate

Observations (cont.)

v. Leave policy

JTSI's Leave Management policy requires that employees plan for and take their annual leave entitlement each year, and that they must not accumulate accrue annual leave credits in excess of eight (8) weeks or 300 hours. From discussions with the Commissioners, we understand that some overseas office network employees may hold in excess of this leave allotment. We understand that some JTSI Commissioners have service periods in their overseas office dating back to over 10 years.

The rotation of employees and backfilling of employees when on leave can be an effective fraud and corruption control mechanism. Requiring employees to take their accrued leave in periods that enable the position to be backfilled is a widely accepted fraud prevention and detection practice. Changing personnel through a role increases the likelihood that non-compliant or corrupt practices are identified.

vi. Employee screening

JTSI do not currently mandate that all new starters are subjected to criminal history checks. We understand that JTSI are considering implementing criminal history checks for 'positions of trust'.

Given the emergence of same-day low cost providers, criminal history checks provide additional due diligence to detect people with a demonstrated capacity to commit fraud. Criminal history checks are commonly used across WA government agencies.

Recommendations

R32: Improve the conflicts of interest and gifts and benefits reporting process through:

- All staff (including locally engaged staff) receive face to face scenario-based training on what constitutes a potential, perceived or actual conflict of interest.
- All conflict of interest declarations be sent to one email address and are reviewed by the Integrity Officer in conjunction with the relevant line manager. These registered conflicts along with any management plans, are stored for future review or audit of the process.
- Mandatory reporting of acquired financial interests in business entities on an ongoing basis, with an annual attestation of completeness.
- Mandatory monitoring of all gifts and benefits with registers / online reporting maintained in Perth by the Integrity Officer.

R33: Implement a regular program of fraud detection analytics on high risk areas such as corporate credit cards, procurement and accounts payable.

R34: Conduct additional vendor due diligence with the Finance team directly receiving verifiable bank records. Require the foreign offices to update Perth Finance with ongoing vendor lists and conduct due diligence were possible.

R35: Ensure Commissioners, Agents-General and locally engaged staff are required to utilise accrued leave in compliance with JTSI policy requirements (ideally on an annual basis).

R36: Conduct criminal history checks of all new Commissioners, staff and contracted employees in the overseas offices (where the jurisdiction permits).

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Appendix 1: Scope and approach

Objective

The objective of this internal audit was to assess the adequacy, efficiency and effectiveness of the internal controls and compliance with policy of expenses covering the last six years, remuneration, entitlements and travel of all Commissioners and Agents General over the last ten years, and the overall fraud and corruption control environment; relating to the Department of Jobs, Tourism, Science and Innovation ("JTSI") overseas trade and investment offices.

Scope

The scope of the internal audit considered the following:

1. The existence and adequacy of key policies, procedures, processes and controls in ensuring expenses are incurred appropriately and in line with respective policies, approved in line with JTSI's Delegation of Authority, monitored and recorded in a timely manner.
2. The processes, risks and controls involved in JTSI's remuneration, entitlement and travel processes, including compliance with relevant policies and procedures over the last 10 years for all Commissioners and Agents General.
3. The overall level of potential fraud risk and the design of the existing control environment in the overseas offices to detect and prevent fraudulent transactions.

Approach

The approach to the internal audit included the following:

- Considered relevant expenditure management; travel and remuneration policies and procedures applicable at JTSI head office and the eight overseas offices.
- Performed walkthroughs of the processes and controls to incur and approve expenses, how remuneration and entitlements are calculated and paid; and travel expenses are claimed and reimbursed. This included the process elements undertaken at the JTSI head office level, as well as those elements undertaken at the overseas offices. This also included the elements which are or were undertaken by other agencies, such as:
  - The Department of the Premier and Cabinet: expenses, travel and remuneration for London, Dubai and Tokyo from 2009 – 2017; including the Department of Finance (Shared Services for 2009 – 2012;
  - The Department of Mines, Industry Regulation and Safety: remuneration and entitlements for all offices for 2017 – 2019.
- Performed data analysis and data analytical routines over expense and credit card expense data of the last 6 years for all the overseas offices; and remuneration, travel and entitlements data of the Commissioner and Agents General for the last 10 years.
- Performed sample testing of over 400 expense and credit card expense transactions; and 80 remuneration and entitlement transactions using a mix of on site testing by KPMG's international teams in the overseas locations; and testing at the JTSI head office in Perth.
- Undertook site visits to London, Tokyo, Dubai and Shanghai to support observations and conduct in person interviews with the Commissioners, Agent-General and relevant office staff and follow up exceptions raised through the data analysis and sample testing.
- Reviewed relevant documents and conducted interviews at JTSI head office to understand the process and the design of the existing controls to prevent and detect fraudulent transactions and the adequacy of the overall fraud risk management framework.
- Designed a fraud risk and control assessment questionnaire which was issued to all overseas offices. Collated and analysed the results and conducted one-on-one interviews with the current Commissioners and Agent-General to discuss and validate the outcomes of the questionnaire.

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Appendix 2: Classification of internal audit findings risk rating matrix

The internal audit findings in this report have been rated as per the risk rating tables below, which have been sourced from JTSI. We note these are currently being updated by JTSI and may not accurately reflect JTSI's current risk appetite.

RISK RATING MATRIX						
LIKELIHOOD	(5) ALMOST CERTAIN	Moderate	High to Extreme	High to Extreme	Critical	Critical
	(4) LIKELY	Moderate	Moderate	High to Extreme	High to Extreme	Critical
	(3) POSSIBLE	Low	Moderate	Moderate	High to Extreme	High to Extreme
	(2) UNLIKELY	Low	Low	Moderate	Moderate	High to Extreme
	(1) RARE	Low	Low	Low	Moderate	Moderate
(RISK RATING = CONSEQUENCE X LIKELIHOOD)		(1) INSIGNIFICANT	(2) MINOR	(3) MODERATE	(4) MAJOR	(5) CATASTROPHIC
		CONSEQUENCE				

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Appendix 2: Classification of internal audit findings risk rating matrix

Assessment of risks

Level	Severity	Injuries/OSH	Financial Loss	Reputation and Image	Legal Compliance	Operational Efficiency
1	**Insignificant**	No injuries	$1000	Unsubstantiated, Low impact, low profile, no news item	Effect on business area procedures only	Little Impact
2	**Minor**	First Aid treatment	$5000	Some media attention but no real loss of Departmental credibility	Non-compliance on internal policies and procedures	Inconvenient delays 1 hour
3	**Moderate**	Medical treatment required	$100,000	Some loss of Departmental credibility Ministerial questions in parliament	Failure to comply with Treasurer's Instructions/Premier's Circular/etc.	Delays in major deliverables <1 day
4	**Major**	Death or extensive injuries	$1 million	Severe loss of Department and government credibility Parliamentary or judicial enquiry	Breach of Federal or State law or Regulations Disciplinary actions	Non achievement of major deliverables 4-5 days
5	**Catastrophic**	Multiple Deaths or severe permanent disablements	$5 million	Complete loss of government credibility, Royal Commission	Breach of International Relations leading to international incident	Non achievement of major key objectives >1 week

Level	Probability	Occurrence	Frequency	Qualitative Description
1	**Rare**	The event may occur only in exceptional circumstances	Once in every ten years	May occur only in exceptional circumstances and/or no recorded incidents or anecdotal evidence; and/or no recent incidents in associated organisations, facilities or communities; and/or little opportunity, reason, or
2	**Unlikely**	The event could occur at some time.	Once in every five years	Might occur at some time; and/or few, infrequent, random recorded incidents or little anecdotal evidence; and/or very few incidents in comparable organisations, facilities or communities; and/or some opportunity, reason, or means to occur.
3	**Possible**	The event should occur at some time.	Once in every two years	Will probably occur in most circumstances; regular recorded incidents or strong anecdotal evidence; and/or considerable opportunity, reason, or means to occur.
4	**Likely**	The event probably will occur in the foreseeable future.	Once or more per year	Is expected to occur in most circumstances; a high level of recorded incidents; and/or strong anecdotal evidence; and/or a strong likelihood the event will recur; and/or great opportunity, reason, or means to occur.
5	**Almost certain**	The event will occur in the near future.	Monthly	Is likely to occur several times per year.

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