

Internal Audit Report

Town of Bassendean  
November 2016

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## 1.0 Disclaimer

The objective of the work we have performed as outlined in Part 2 of this report as presented, was to provide internal audit services to the Town of Bassendean, as directed by the officers of the Town.

It has been prepared by Moore Stephens (WA) Pty Ltd for this sole purpose.

It is not intended to be used by any other individual or organisation.

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## 2.0 Engagement Overview

### Introduction

At the request of the Town, Moore Stephens was engaged to provide internal audit services. This consisted of a review of the appropriateness and effectiveness of certain financial management systems and procedures.

### Objective and scope

As detailed in the quotation specification, our response to the quotation request and the references made in the final contract agreed upon by both parties.

### Objective

To review the appropriateness and effectiveness of the Town's financial management systems and procedures by undertaking sectional reviews each year as selected and directed by the designated officers of the City.

### Scope

For the 2016/17 year, our procedures focused on the following key control areas as specified by the Town of Bassendean Audit Committee four-year Internal Audit Programme;

- Procurement procedures and processes
- Contracts tender and administration
- Creditors' payment – EFT and cheques

### Approach / methodology

The process included:

- Onsite review and testing from 9 November 2016 to 11 November 2016;
- Initial discussions with relevant staff to identify existing policies and procedures in place;
- Detailed sample testing and review of relevant documents as applicable; and
- Provision of a draft report to the Director Corporate Services.

The results of our procedures, report on work performed, along with management responses and target resolution dates can be found at Sections 3.0 and 4.0 on the following pages.

## 3.0 Overview and Results of Testing Performed

No	Key control area examined & testing approach	Sample size	Results	Findings & Comments	Management response & target date
<b>3.1</b>	<b>Purchase of Goods and Services</b>				
<b>3.1.1</b>	<b>Testing approach:</b> Conducted a review of the purchasing policy and performed a walkthrough of the purchasing procedure as well as tested samples to ensure compliance with the purchasing policy.  Tests conducted on the samples above to verify purchase order authorisation and goods/services received within the parameters of the purchasing policy.	<b>EFT payments</b> 20 samples selected at random for the period 1 July to 3 November 2016.	We noted one instance where one project valued >\$150,000 was authorised and paid with only one quotation obtained and no consideration for tender. Explanation obtained was, the supplier was a WALGA preferred supplier, hence not necessary to obtain competitive quotes from other WALGA suppliers.	<b>Findings:</b> Whilst technically in accordance with the Act, regulations and the Town's Procurement Guidelines, only obtaining one quote for contracts in excess of the tender threshold is not considered to be best practice.  <b>Comments:</b> In future consideration should be given to obtaining quotes from other WALGA preferred suppliers to keep project costs competitive and favourable to the Council.	The Procurement Procedures have been amended to ensure that all WALGA preferred suppliers of a particular services are invited to submit a quotation or Tender.
			In the EFT sequential numbers check, we noted one instance where one EFT appeared to be missing from the sequential population. A satisfactory explanation was obtained for the cancelled payment.	<b>Findings:</b> No matters to report.	Noted
<b>3.1.2</b>		<b>Cheque payments</b> 5 samples selected at random for the period 1 July to 3 November 2016.	Cheque folders were reviewed and we noted one cheque was cancelled. Cancelled cheque was marked with a red cross and kept in file. Additionally, we reviewed unused cheques for pre-signed cheques – none noted.	<b>Findings:</b> No matters to report.	Noted

## 3.0 Overview and Results of Testing Performed (Continued)

No	Key control area examined & testing approach	Sample size	Results	Findings & Comments	Management response & target date
3.1.3	<p>Conducted a review of Appendix 5 of the Procurement Guidelines – ‘Use of Corporate Credit Cards’ procedures to determine if adequate controls are in place. Credit card transactions tested to ensure compliance with the ‘Use of Corporate Credit Card’ procedures</p>	<p>Credit card payments</p> <p>Credit card limits were reviewed for any excessive limits in comparison to designations.</p>	<p>Names, designation, credit limits were reviewed for each card and enquired on the expenses normally incurred by these credit card holders.</p>	<p><b>Findings:</b></p> <p>Number of credit cards available appears excessive considering the size of the Council is rather small. Certain departments within the council have 2 credit cards.</p> <p><b>Comments:</b></p> <p>Given the size of the Council, the number of credit cards available is excessive which could lead to increase in probability of fraud and error. The number of credit cards currently on issue should be reviewed and guidelines established relating to future issues.</p>	<p>Credit Cards provide an efficient method of purchasing. Card holders Card statements &amp; purchases require authorisation of a senior officer. This is also verified by a Finance officer for policy compliance. A review of card transactions is currently being undertaken, with the CEO recommending that cards with low usage will be cancelled, therefore a subsequent reduction in card’s issued to an acceptable level.</p>

## 3.0 Overview and Results of Testing Performed (Continued)

No	Key control area examined & testing approach	Sample size	Results	Findings & Comments	Management response & target date
	<p>10 credit card statements across 25 credit card holders were tested.</p> <p>Credit Card payments for the months of July to September 2016 were tested to ensure payments were properly supported, authorised, allocated and within allowable parameters.</p>		<p>Noted one instance where a credit card was used to purchase iPads for use as participation incentives in relation to the Community survey, Although the purchase falls under the Director's service area, the iPad purchase does not appear to comply with "Credit Card Allowable Purchases" on the Credit Card policy.</p>	<p><b>Findings:</b> Explanation was obtained from Director of Corporate Services on the iPad purchase. The purchase was made at a supplier that does not accept purchase orders for the best price offered for the iPad. Hence, the final decision to use credit card to finalise the payment.</p> <p><b>Comments:</b> Notwithstanding the reason given, the purchase of the iPads do not fall under exemptions listed in the Procurement Policy and procedures should be implemented to avoid this reoccurring in the future.</p>	<p>The purchase of the iPads does comply with the authority within the Credit Card procedures and meets the requirements of the procurement procedures. This is referred to on page 30 of the Procurement Procedures. The purchase is also listed on the exemption list of the Procurement Procedures- Credit Card Purchases</p>
<b>3.1.4</b>	<p>Conducted a review of the purchasing policy as well as tested samples to ensure compliance with the purchasing policy.</p>	<p><b>Purchasing procedures</b></p> <p>5 samples selected at random from completed purchase orders listing from 1 July to 3 November 2016.</p>	<p>No specific exceptions were noted. Controls and procedures appears to be operating as required.</p>	<p><b>Findings:</b></p> <p>No matters to report.</p>	<p>Noted</p>

## 3.0 Overview and Results of Testing Performed (Continued)

No	Key control area examined & testing approach	Sample size	Results	Findings & Comments	Management response & target date
3.2	<p><b>Creditor's payment and data matching</b></p> <p><b>Testing approach:</b></p> <p>Conducted a review of the purchasing policy and performed a walkthrough of payment procedure.</p> <p>Tested samples to ensure appropriate authorisation of purchase and payments made.</p> <p>Ensured the correct amount was paid to the correct bank account.</p>	<p>10 creditors were selected at random and 2 payment transaction were selected from the creditors for data matching testing.</p>	<p>No specific exception noted with regards to payments. All samples selected for testing show the payment made was to the correct bank account and none of them had their bank details changed in the audit period. An additional sample with bank details changed was selected to perform a walkthrough to test if the procedures were adhered to.</p> <p>We noted emails sent to the Manager's e-mail folder (automatically sent by Synergy Soft for all changes) remained unopened and appeared not to be cross-checked or reviewed for authorised changes.</p>	<p><b>Findings:</b></p> <ul style="list-style-type: none"> <li>- The Accounts Payable Officer (APO) is allowed to make changes to the EFT bank details on Synergy Soft's Vendor Master File and an instant notification is sent from Synergy Soft system to the Manager of Corporate Services. Authorisation is not required to allow creditor's information to be changed on the system.</li> <li>- The APO randomly checks the bank details on the system upon payment with Synergy Soft's records for creditors who are rarely engaged. However, this is not consistent.</li> <li>- Creditors who required their bank details updated would need to submit the new creditor's form for the Manager of Corporate Services to approve.</li> <li>- New creditor's details are completed in a form, approved by Manager of Corporate Services before the APO updates the Vendor Master File.</li> </ul> <p><b>Comments:</b></p> <p>Matter was previously raised in 2015's internal audit report. Although the mitigating procedure is to have Manager of Corporate Service monitor the changes in the Vendor Master File, there are no indication that there is further action after the notification has been received from Synergy Soft.</p> <p>A recent "scam" has been successful at a local government in very similar circumstances and procedures should be updated to strengthen how changes are effected.- particularly the procedures around verifying the requested changes is bona-fide. We are able to provide further guidance in this regard if requested.</p>	<p>A review of the current processes has been undertaken. Changes include a verifying officer will cross check Combiz payments list back to invoice payment data. Notified changes from creditors will only be changed on creditor letterhead advice, and completion of form to creditor when APO is aware EFT details have changed. The Manager CS will copy Synergy notification of EFT details and match to creditors request to amend EFT details, so all changes are held together.</p> <p>APO will also check ABN on ATO website to assist in creditor verification is bona-fide.</p> <p>Additionally, New Creditors will be requested to provide documentation to substantiate the ABN and Company ownership. This will require Companies providing documentation from ATO and ASIC.</p>

## 3.0 Overview and Results of Testing Performed (Continued)

No	Key control area examined & testing approach	Sample size	Results	Findings & Comments	Management response & target date
<b>3.3</b>	<b>Duplicate payments</b>				
	<b>Testing approach:</b> Conducted a review on the creditors' ledger for the months of July to October 2016 for any duplicate payments.	Reviewed payment information from creditors' ledger with reference numbers filtered to detect duplicate information.	Investigated transactions with duplicate information. Explanation obtained appears reasonable. Duplicate information detected mainly related to payroll (salary and wages, superannuation etc) and these were satisfactorily explained. No other exceptions noted. Controls and procedures appears to be operating successfully.	<b>Findings:</b> No matters to report	Noted
<b>3.4</b>	<b>Creditor's month end procedures</b>				
	<b>Testing approach:</b> Reviewed creditors' reconciliation workings for the months of July to October 2016 to ensure reconciliations are reviewed and signed off.	Tested and verified the month end reconciliation of the creditors' subsidiary ledger to the creditors general ledger control account for the months selected.	Reconciliations were performed as required and no discrepancies noted. Reviewed and authorised as required.  Original copy of August 2016's authorised reconciliation was misplaced and a replacement copy was presented instead.	<b>Findings:</b> Filing of authorised reconciliation should be completed every month instead of accumulating the documents. Improvement is required to ensure the relevant authorised reconciliation is attached with supporting documents and correspondences.  <b>Comments:</b> To streamline procedures for month-end process to include filing of documents for manager or Council's review. This may include tasking a specific individual with the responsibility to ensure there is a specific month end procedure in place.	Noted.

## 3.0 Overview and Results of Testing Performed (Continued)

No	Key control area examined & testing approach	Sample size	Results	Findings & Comments	Management response & target date
3.5	<b>Trust Funds</b>				
	<b>Testing approach:</b>			<b>Findings:</b>	
	Ensure trust transactions agree to the general ledger and supporting documents.	Randomly selected 5 samples from Trust transaction listing from 1 July to 3 November 2016.	Control over the Trust refund appears reasonable and no weaknesses identified.	No matters to report.	Noted
	Sighted original receipt to ensure payment was collected before refunds are made.				
	Sighted the payment authorisation form to ensure refunds are properly authorised.				

## 3.0 Overview and Results of Testing Performed (Continued)

No	Key control area examined & testing approach	Sample size	Results	Findings & Comments	Management response & target date
3.6	<b>Contracts and Tender Administration</b>				
	<p><b>Testing approach:</b></p> <p>Reviewed tender registers and tender process.</p>	<p>All relevant tenders on the register from 1 July to 3 November 2016 were reviewed.</p>	<p>We noted the components of the individual tenders completed with no matters noted. However, there appears to be an electronic summary and a manual summary that do not match.</p>	<p><b>Findings:</b></p> <p>The list of tenders between the electronic and manual summaries do not match. It appears they were not simultaneously updated.</p> <p><b>Comments:</b></p> <p>Some staff preferred the manual system while others viewed electronic copies. To ensure up-to-date information both copies should contain the same information or systems changed so only one system is used. There needs to be consideration of the requirements of the Act and Regulations which require an up to date register to be kept.</p>	<p>The Town uses its Intranet to keep a register of ALL the Requests for Quotes, Requests for Tender and Expression of Interest. This is not the Official Tender Register. The tender Register is in paper version and this ensures that the contents of the Tender Register complies with the Regulations.</p>

## 4.0 Summary of Risks Identified

The following is a summary of risks identified during the course of the internal audit and highlighted in the response matrix at Section 5.0.

S	<b>Systems and Procedures</b>
C	<b>Compliance Matter</b>

FINDINGS	NATURE	Risk Assessment (Refer Appendices)		
		Consequence	Likelihood	Level of Risk
<b>Purchase of Goods and Services</b>				
<b>Procurement – 3.1.1</b>				
Procurement guidelines should be amended with respect to the number of quotes required from WALGA preferred suppliers when contract > \$150,000	S	Moderate	Possible	M
<b>Credit Card Payments – 3.1.3</b>				
Number of credit cards on issue appears excessive for the size of the Town	S	Moderate	Possible	M
Credit card purchases should always be in compliance with the 'Use of Corporate Credit Card' policy.	S	Moderate	Possible	M
<b>Creditors Payment and Data Matching – 3.2</b>				
That the employee (in this case, the Accounts Payable Officer) responsible for entering supplier invoices and payments should not have sole access to the Vendor Master File. Particularly relevant given recent 'scam' activity affecting the local government industry.	S	Major	Possible	H
<b>Creditor's Month End Procedures – 3.4</b>				
Filing of creditors' reconciliation, signed and dated by the person preparing them and evidence as to review should be improved.	S	Minor	Unlikely	L
<b>Contracts and Tender Administration – 3.6</b>				
A decision be made as to the form of the Tender Register.	C	Minor	Possible	L
<b>The official Tender Register is in Hard Copy and complies with the requirements of the Regulations.</b>				

## 5.0 Appendix One: Risk Assessment Table – Level of Risk

### CONSEQUENCE (APPENDIX THREE)

		INSIGNIFICANT	MINOR	MODERATE	MAJOR	CATASTROPHIC
Likelihood (Appendix Two)	Almost Certain	Medium	High	High	Extreme/ Exceptional	Extreme/ Exceptional
	Likely	Medium	Medium	High	High	Extreme/ Exceptional
	Possible	Low	Medium	Medium	High	High
	Unlikely	Low	Low	Medium	Medium	High
	Rare	Very low	Low	Low	Medium	Medium

## 6.0 Appendix Two: Likelihood Levels – Criteria Guide

Risk/ Opportunity level	Description
5. Almost Certain	Expected to occur in most circumstances or occurs regularly. A clear opportunity already apparent, which can easily be achieved.
4. Likely	Occurrence is noticeable or is likely to occur. An opportunity that has been explored and may be achievable.
3. Possible	Occurs occasionally or may occur. Possible opportunity identified.
2. Unlikely	Occurs infrequently or is not likely to occur. Opportunity that is fairly unlikely to happen.
1. Rare	Only occurs in exceptional circumstances, Opportunity that is very unlikely to happen.

## 7.0 Appendix Three: Consequence Levels – Criteria Guide

Strategic level	Performance	Financial	Environmental	Reputation	
Consequence	Catastrophic	Town unable to achieve its key objectives/ Exceptional improvement on the delivery of the Town’s key strategic objectives. Ongoing loss of critical infrastructure.	Loss of assets, >15% of asset value. Adverse impact on annual revenues >15% deviation from budget.	Catastrophic long term environmental harm. Exceptional improvement to local environment and/or national environment.	Significant long term damage to public confidence in the City leading to sustained compromise in the achievement of strategic objectives, Extensive positive coverage in local and/or national press.
	Major	Major impact on the Town’s ability to achieve its key strategic objectives, Major improvement on the delivery of the Town’s key strategic objectives. Impact cannot be managed with the current resources. Long-term loss of critical infrastructure.	Loss of assets, 5% to 15% of asset value. Adverse impact on revenue and costs 5% to 15% deviation from budget. External audit qualification on the report and accounts.	Significant long-term environmental harm, Major impact to local environment.	Adverse local publicity of a major and persistent nature, affects the perception/ standing of the City within the community, Negative coverage in local press (e.g. extensive or front page).

## 7.0 Appendix Three: Consequence Levels – Criteria Guide (Continued)

Strategic level	Performance	Financial	Environmental	Reputation	
Consequence	Moderate	<p>Moderate impact on the Town's ability to meet its key objectives, Moderate impact on the delivery of the Town's key objectives.</p> <p>Significant adjustment to resource allocation required to manage impact.</p> <p>Loss of support infrastructure.</p>	<p>Loss of assets, 2% to 5% of asset value.</p> <p>Adverse impact on revenue and costs 2% to 5% deviation from budget.</p> <p>External audit management letter contains significant issues.</p>	<p>Significant short-term environmental harm, Moderate improvement to local environment.</p>	<p>Negative publicity or damage to reputation to a specific audience which may not have significant long-term or community effects, Negative coverage in local press.</p>
	Minor	<p>Minor impact on the Town's key objectives, Minor impact on the delivery of the Town's key objectives.</p> <p>Additional internal management efforts required to manage impact.</p> <p>Interruption to support infrastructure.</p>	<p>Loss of assets &lt;2% of asset value.</p> <p>Adverse impact on revenues and costs &lt;2% deviation from budget.</p>	<p>Minor transient environmental harm, Minor impact to local environment.</p>	<p>Minor negative publicity or damage to reputation to an insignificant audience, complaint from a large group of people, Minimal negative coverage in local press.</p>
	Insignificant	<p>Negligible impact on the Town's key objectives, Negligible impact on the delivery of the Town's key objectives.</p> <p>Impact can be managed through routine activities.</p> <p>Negligible interruption to support infrastructure.</p>	<p>Insignificant loss of assets or, Insignificant adverse impact on annual revenue or costs.</p>	<p>Negligible transient environmental harm, Negligible impact to local environment.</p>	<p>Minor unsubstantiated negative publicity or damage to reputation to an insignificant audience, contained within a business unit/directorate, complaint from individual/small group, of arguable merit, Negligible negative coverage in local press.</p>

## 7.0 Appendix Three: Consequence Levels – Criteria Guide (Continued)

Strategic level	Service delivery/Business disruption	Financial	Osh	Physical	Legislative/regulatory/policy	
Consequence	Catastrophic	Major loss of service, including several important areas of service and/or a protracted period, Exceptional impact to service(s). Ongoing loss of business systems.	Loss of assets, >15% of asset value. Adverse impact on annual revenues, Exceptional income and/or savings > 15% deviation from budget.	Death	Extreme incident effecting organisation's survival.	All personal details compromised/ revealed.
	Major	Complete loss of an important service area for a short period, Major impact to service (s). Major disruption in business processes.	Loss of assets, 5% to 15% of asset value. Adverse impact on revenue and costs, Major income and/or savings 5% to 15% deviation from budget.	Multiple serious injuries and/or major OS&H and WC incident/issue.	Significant incident affecting multiple locations.	Regulatory non-compliance which place individuals at risk of harm. Significant breach of code of conduct. Many individual personal details compromised/ revealed.
	Moderate	Major effect to an important service area for a short period, moderate impact to service (s). Adverse effect to services in one or more areas for a brief period. Moderate disruption in business processes.	Loss of assets, 2% to 5% of asset value. Adverse impact on revenue and costs, Moderate income and/or savings. 2% to 5% deviation from budget.	Serious injury and /or illness.	Localised incident. Significant effect on operations.	Breach of code of conduct. Some individual personal details compromised/ revealed.

## 7.0 Appendix Three: Consequence Levels – Criteria Guide (Continued)

Strategic level	Service delivery/Business disruption	Financial	Osh	Physical	Legislative/regulatory/policy	
Consequence	Minor	Brief disruption of important service area, Noticeable effect to non-crucial service area, Minor impact to service(s). Minor disruption in business processes.	Loss of assets < 2 % of asset value. Adverse impact on revenues and costs, Minor income and/or savings <2% deviation from budget.	First aid or minor lost time injury and/or minor OS&H liability incident/issue.	Localised incident. No effect on operations.	Minor breach of code of conduct. Isolated individual personal details compromised/revealed.
	Insignificant	Brief disruption of non- crucial service area, Negligible impact to service (s). Negligible impact on the effectiveness of the organisation’s processes. Negligible disruption in business processes.	Insignificant loss of assets or insignificant adverse impact on annual revenue or costs.	Incident with or without minor injury.	No notifiable or reportable incident.	Little or no impact to code of conduct. An individual’s personal details compromised/revealed.

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