



# NOTICE

of

## CORPORATE GOVERNANCE COMMITTEE MEETING

*Pursuant to the provisions of Section 84(1) of the  
Local Government Act 1999*

TO BE HELD IN

**COUNCIL CHAMBERS  
PLAYFORD CIVIC CENTRE  
10 PLAYFORD BOULEVARD, ELIZABETH**

MEMBERS MAY PARTICIPATE BY ELECTRONIC MEANS

ON

**TUESDAY, 2 FEBRUARY 2021 AT 4:30PM**

THIS MEETING WILL ALSO BE VIEWABLE AT  
<https://www.youtube.com/user/CityOfPlayford>

**SAM GREEN  
CHIEF EXECUTIVE OFFICER**

Issue Date: Thursday, 28 January 2021

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MEMBERSHIP

**PRESIDING MEMBER – MR PETER BRASS**

Mayor Glenn Docherty  
Mr Martin White

Mr Mark Labaz

Cr Jane Onuzans



**City of Playford**  
**Corporate Governance Committee Meeting**

**AGENDA**

**TUESDAY, 2 FEBRUARY 2021 AT 4:30PM**

**1 ATTENDANCE RECORD**

- 1.1 Present
- 1.2 Apologies
- 1.3 Not Present

**2 CONFIRMATION OF MINUTES**

**RECOMMENDATION**

The Minutes of the Corporate Governance Committee Meeting held 1 December 2020 be confirmed as a true and accurate record of proceedings.

**3 DECLARATIONS OF INTEREST**

**4 DEPUTATION / REPRESENTATIONS**

Nil

**5 STAFF REPORTS**

**Matters to be considered by the Committee Only**

*Matters for Information.*

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**7 INFORMAL ACTIONS**

**8 CONFIDENTIAL MATTERS**

Nil

**9 CLOSURE**



## **STAFF REPORTS**

### **MATTERS TO BE CONSIDERED BY THE COMMITTEE ONLY**

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***Matters for Information.***

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## 5.1 MID YEAR REVIEW - END OF YEAR FORECAST

**Responsible Executive Manager :** Mr Barry Porter

**Report Author :** Ms Samantha Grieve

**Delegated Authority :** Matters for Information.

**Attachments :** 1 [↓](#). Uniform Presentation of Financial Statement FY21 Mid Year Forecast

### Purpose

To inform the Committee whether the organisation is on track to achieve its financial targets as outlined in the budget.

### STAFF RECOMMENDATION

The Committee receives the Mid-Year Review Report and 2020/21 Forecast Financial Statements (Attachment 1).

### Relevance to Strategic Plan

This item ensures that we are meeting our legislative requirements under the *Local Government (Financial Management) Regulations 2011*. It also provides transparent financial reporting to our community by illustrating how we are sticking to our Finance Strategy to achieve long term financial sustainability.

### Relevance to Public Consultation Policy

As part of the annual budgeting process there is a 28-day public consultation period. However, the Mid-Year Review is principally for internal management purposes and there is no requirement to consult with the community.

### Background

In accordance with Regulation 9 of the *Local Government (Financial Management) Regulations 2011*, Council must reconsider its budget at least two times throughout the year, between 30 September and 31 May, restating the impact on the Uniform Presentation of Finances (Regulation 9(1)(a)). In addition, Council must also reconsider its Budget once between the 30 November and 15 March, producing a revised forecast for all the budgeted financial statements as per the *Model Financial Statements format (Regulation 9(1)(b))*.

This Mid-Year Review Report has been produced in accordance with *Regulation 9(1)(b)*. The purpose of the Year-End Forecast is to indicate whether Council is on track to achieve both its financial and key service delivery performance targets as outlined in the budget.

## Current Situation

The results of the Year-End Forecast indicate that Council is progressing towards meeting the financial and key service delivery targets as outlined in the budget. The Year-End forecast reflects both unfavourable and favourable movements in revenue and expenditure. This year, unfavourable revenue results are heavily impacted by a change to the way Council budgets and forecasts for payments from Federal Assistance Grants Scheme (FAGS). This has been partially offset, by higher development application fees, developer contributions and project grant funding. The unfavourable expenditure results are impacted by the additional costs caused by COVID 19, higher waste management costs and grant funded projects. This has been partially offset by lower interest charges and employee cost savings. While these savings are temporary in nature, they are forecast to impact the operating result this year. The net impact of the unfavourable revenue result and unfavourable expenditure result produce a \$4.9M unfavourable variance to the reviewed 2020/21 budget. (Adopted by Council in November 2020).

In relation to the capital program, there are variances forecast which relate to the timing of expenditure on multi-year projects, with work being deferred to next financial year (2021/22). The forecast indicates the Net Capital result will be \$37.8M, \$15.5M less than the Revised Budget of \$53.3M.

### Federal Assistance Grants Scheme (FAGS)

FAGS payments are currently paid to Council in quarterly instalments. Historically (seven out of the last nine years) the State Government has, in June, prepaid 50% of the total FAGS for the next financial year. Under Australian Accounting Standards, Council is required to record this prepayment as Revenue, in the operating result, in the financial year it is received.

Council budgets, anticipating that there will be an additional prepayment of FAGS in June 2021, consistent with the payment history of the last three financial years as shown in the table below. However, as this has not been confirmed, Council has not reflected this in the Year-End forecast. As a result, the budget includes receipt of FAGS at 100% of our allocation, while the forecast reflects receipt of only 50%, pending further communication from State Government regarding payments. The impact of this is an unfavourable result in Councils revenue.

	Cash Payment Received \$,000	Annual Allocation \$,000	Prepayment \$,000
<b>2016/17</b>	\$15,746	\$9,764	+ \$5,982
<b>2017/18</b>	\$10,069	\$10,535	- \$5,982 +\$5,516
<b>2018/19</b>	\$11,210	\$10,942	-\$5,516 +\$5,784
<b>2019/20</b>	\$11,367	\$11,211	-\$5,784 +\$5,940
<b>2020/21</b>	\$5,583 (Forecast)	\$11,308 (Budget)	-\$5,940

### Operating Budget

The Year-End operating result is currently forecast as a deficit of \$1M, which is \$4.9M unfavourable to the budgeted operating result of \$3.9M. Again, this result is heavily impacted by the budgeting for FAGS. Detailed financial statements are provided in Attachment 1.

	2020/21 Original Budget	2020/21 Revised Budget	2020/21 Forecast	Variance Fav/(Unfav)
	\$000's	\$000's	\$000's	\$000's
Operating income	111,933	111,863	107,926	(3,937)
Less: Operating expenditure	(108,063)	(107,997)	(108,946)	(949)
<b>Operating Surplus / (Deficit)</b>	<b>3,870</b>	<b>3,866</b>	<b>(1,020)</b>	<b>(4,886)</b>

Key variances are summarised below:

Revenue: \$3.9M, 3.5% unfavourable

- Statutory Charges (\$0.4M, favourable) due to higher planning application fees.
- User Charges (\$0.9M, unfavourable) due to COVID 19 impact.
- Grants, Subsidies & Contributions (\$3.5M, unfavourable) due to budgeting FAGS at 100% and forecasting the receipt of only 50%, partially offset by extra developer contributions and additional State and Federal grant funding.

Expenditure: \$1M, 1% unfavourable

- Employee Costs (\$0.3M favourable) due to leave and vacancies.
- Materials, Contracts & Other Expenses (\$2M, unfavourable) due to higher waste management cost and COVID 19 impact.
- Finance Costs (\$0.7M favourable)
  - Interest savings are based on the reduced level of debt funding required as capital projects are delayed.
  - Lower interest rates for CAD Loans.
- Depreciation (\$0.1M unfavourable) due to asset indexation.

The forecast indicates cost savings which have resulted from one off or seasonal based instances. It is not expected that these savings will be permanent. Ongoing savings will be captured as part of Council's continued focus on continuous improvement.

### Capital Budget

The forecast indicates the Net Capital expenditure will be \$37.8M, \$15.5M less than the Revised Budget.

Capital Income forecast increased from \$5M to \$5.4M, (\$0.4M, favourable)

Capital Expenditure has decreased from \$58.3M to \$43.2M (\$15.1M favourable)

Project	Full Year Forecast \$'000	Full Year Budget \$'000	Variance to Budget Fav/(Unfav)	Explanation
Buildings	2,224	2,350	126	Savings in AV Sports Female Changerooms, Kalara Reserve Club Rooms and Fremont Park - Changing Places
Fleet	4,355	4,355	-	
IT	378	922	544	AMP ICT forecast savings
Northern CBD	3,957	5,773	1,816	Grenville Centre savings
Other	726	2,605	1,879	Strategic land purchase and repurposing asset sales deferred
Parks	3,746	8,494	4,748	AV Community Sports Centre construction and Virginia Institute Park construction budget carry out to 2021/22, Stebonheath Culvert forecasted saving
Playford Alive	143	397	254	Playford Alive projects carry out to 2021/22
Playford City Sports Precinct	164	170	6	
Stormwater	1,933	1,740	(193)	AMP stormwater forecasted savings, Broadacres forecasted spend (BR2 carry over)
Streetscapes	3,713	6,318	2,605	Virginia Main St part budget carry out to 2021/22
Transport	16,239	19,945	3,706	Supplementary Local Roads grant projects yet to be determined, NCBD Prince Charles St carry out to 2021/22
Water Capture	218	218	-	
<b>Total Net Capital Expenditure</b>	<b>37,796</b>	<b>53,287</b>	<b>15,491</b>	

While the net impact of the capital forecast may be realised as savings on the annual 2020/21 Net Capital expenditure, it is important to recognise that this is not an adjustment to the full-life budget of the individual projects; it simply reflects the timing of when expenditure is likely to be incurred. Any amounts not expended in 2020/21 may be carried over to 2021/22 as a part of budget review.

## Summary

As per the *Local Government (Financial Management) Regulations 2011*, the forecast is presented in a manner consistent with the Model Financial Statements in Attachment 1. This includes a revised Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and Uniform Presentation of Finances. These revised statements show the Original Budget, the Revised Budget (as adopted in November 2020) and the forecast.

## Future Action

### Monthly Forecast updates

Future monthly budget update reports will continue to include updated monthly forecasts for the remainder of the financial year. Information regarding variances to the forecasts will also be provided in these monthly reports.

### Next Budget Review

It is proposed that the final Budget Review for the year be presented in March to give Council adequate time to consider the potential options to mitigate cost pressures or effectively utilise savings, if necessary.

City of Playford  
Statement of Comprehensive Income - Mid Year Forecast  
For the year ended 30 June 2021

2019/20 Actual		2020/21 Original Budget	2020/21 BR1	2020/21 Mid Year Forecast	Variance Fav/(Unfav)	Variance Fav/(Unfav)
\$000's		\$000's	\$000's	\$000's	\$000's	
	<b>INCOME</b>					
82,161	Rates Revenues	84,120	84,087	83,934	(153)	(0%)
2,035	Statutory Charges	2,052	2,052	2,494	442	22%
2,822	User Charges	5,891	5,401	4,479	(922)	(17%)
14	Investment Income	13	13	13	0	1%
1,293	Reimbursements	738	738	867	129	18%
1,396	Other Income	238	238	304	66	28%
16,959	Grants, Subsidies & Contributions	18,881	19,334	15,835	(3,499)	(18%)
-	Net Gain - Equity Accounted Council Businesses	-	-	-	-	
106,680	<b>TOTAL INCOME</b>	111,933	111,863	107,926	(3,937)	
	<b>EXPENSES</b>					
40,466	Employee costs	42,106	42,256	41,957	299	1%
35,188	Materials, Contracts & Other Expenses	39,147	38,645	40,620	(1,975)	(5%)
4,993	Finance costs	5,044	5,212	4,557	655	13%
20,683	Depreciation	21,191	21,309	21,401	(92)	(0%)
526	Net Loss - Equity Accounted Council Businesses	575	575	411	164	29%
101,856	<b>TOTAL EXPENSES</b>	108,063	107,997	108,946	(949)	
4,824	<b>Operating Surplus / (Deficit)</b>	3,870	3,866	(1,020)	(4,886)	
(4,749)	Asset Disposal & Fair Value Adjustments	3,696	3,696	3,696	-	-
2,494	Amounts Received Specifically for New or Upgraded Assets	4,946	5,070	5,070	-	-
10,870	Physical Resources Received Free of Charge	10,845	10,845	10,845	-	-
13,439	<b>NET SURPLUS / (DEFICIT)</b>	23,357	23,477	18,591	(4,886)	
	transferred to Equity Statement					
	<b>Other Comprehensive Income</b>					
12,936	Changes in Revaluation Surplus - I,PP&E	26,695	26,695	26,695	-	-
394	Share of Other Comprehensive Income - Equity Accounted Council Businesses	-	-	-	-	-
-	Impairment (Expense) / Recoupments Offset to Asset Revaluation Reserve	-	-	-	-	-
13,330	<b>Total Other Comprehensive Income</b>	26,695	26,695	26,695	-	-
26,769	<b>TOTAL COMPREHENSIVE INCOME</b>	50,052	50,172	45,286	(4,886)	

**City of Playford**  
**Year End Balance Sheet - Mid Year Forecast**  
**For the year ended 30 June 2021**

2019/20 Actual		2020/21 Original Budget	2020/21 BR1	2020/21 Mid Year Forecast	Variance Fav/(Unfav)	Variance Fav/(Unfav)
\$000's		\$000's	\$000's	\$000's	\$000's	
	<b>CURRENT ASSETS</b>					
1,884	Cash and Cash Equivalents	1,500	1,500	1,500	-	-
9,736	Trade & Other Receivables	8,379	8,379	10,429	2,050	24%
157	Inventories	185	185	164	(21)	(11%)
-	Other current assets	-	-	-	-	-
426	Non-Current Assets held for sale	425	425	425	-	-
12,203	<b>TOTAL CURRENT ASSETS</b>	10,489	10,489	12,518	2,029	
	<b>NON-CURRENT ASSETS</b>					
315	Financial Assets	332	332	315	(17)	(5%)
9,383	Equity Accounted Investments in Council Businesses	8,992	8,992	8,808	(184)	(2%)
1,244,694	Infrastructure, Property, Plant & Equipment	1,330,742	1,345,340	1,318,405	26,935	(2%)
8,106	Other Non-Current Assets	19,773	19,773	8,849	(10,924)	(55%)
1,262,498	<b>TOTAL NON-CURRENT ASSETS</b>	1,359,839	1,374,437	1,336,377	15,810	
1,274,701	<b>TOTAL ASSETS</b>	1,370,328	1,384,926	1,348,895	36,031	
	<b>CURRENT LIABILITIES</b>					
16,177	Trade & other payables	18,900	18,900	16,822	(2,078)	11%
8,141	Borrowings	34,458	48,936	27,252	(21,684)	44%
5,661	Short-term provisions	5,771	5,771	5,733	(38)	1%
29,979	<b>TOTAL CURRENT LIABILITIES</b>	59,129	73,607	49,807	(23,800)	
	<b>NON-CURRENT LIABILITIES</b>					
129,608	Long-term borrowings	141,125	141,125	138,674	(2,451)	2%
1,329	Long-term provisions	1,125	1,125	1,343	218	(19%)
130,937	<b>TOTAL NON-CURRENT LIABILITIES</b>	142,250	142,250	140,017	(2,233)	
160,916	<b>TOTAL LIABILITIES</b>	201,379	215,857	189,824	(26,033)	
1,113,785	<b>NET ASSETS</b>	1,168,949	1,169,069	1,159,071	(9,998)	
	<b>EQUITY</b>					
470,924	Accumulated Surplus	498,828	498,948	489,318	(9,630)	(2%)
634,024	Asset Revaluation Reserve	666,046	666,046	660,719	(5,327)	(1%)
8,837	Other Reserves	4,075	4,075	9,034	4,959	122%
1,113,785	<b>TOTAL EQUITY</b>	1,168,949	1,169,069	1,159,071	(9,998)	

City of Playford  
Statement of Changes in Equity - Mid Year Forecast  
For the year ended 30 June 2021

2019/20 Actual \$000's		2020/21 Original Budget \$000's	2020/21 BR1 \$000's	2020/21 Mid Year Forecast \$000's	Variance Fav/(Unfav) \$000's	Variance Fav/(Unfav)
<b>ACCUMULATED SURPLUS</b>						
456,989	Balance at end of previous reporting period	475,668	475,668	470,924	(4,743)	(1%)
13,439	Net Surplus (Deficit) for year	23,357	23,477	18,591	(4,886)	(21%)
(4)	Adjustments (Changes in Accounting Standards)		-	-	-	
394	Share of other comprehensive income - joint ventures and associates	-	-	-	-	
1,373	Transfers from Other Reserves	646	646	646	-	-
(1,267)	Transfers to Other Reserves	(843)	(843)	(843)	-	-
<b>470,924</b>	<b>Balance at end of reporting period</b>	<b>498,828</b>	<b>498,948</b>	<b>489,318</b>	<b>(9,630)</b>	
<b>ASSET REVALUATION RESERVE</b>						
621,088	Balance at end of previous reporting period	627,714	627,714	621,088	(6,626)	(1%)
	Other Comprehensive Income				-	
12,936	Gain(Loss) on revaluation of infrastructure, property, plant & equipment	38,332	38,332	39,631	1,299	3%
	Impairment (expense) / recoupments offset to asset revaluation reserve	-	-	-	-	
	Share of OCI - Equity Accounted Council Businesses		-	-	-	
<b>634,024</b>	<b>Balance at end of reporting period</b>	<b>666,046</b>	<b>666,046</b>	<b>660,719</b>	<b>(5,327)</b>	<b>(1%)</b>
<b>OTHER RESERVES</b>						
8,943	Balance at end of previous reporting period	3,878	3,878	8,837	4,959	128%
1,267	Transfers to accumulated surplus	843	843	843	-	-
(1,373)	Transfers from accumulated surplus	(646)	(646)	(646)	-	-
<b>8,837</b>	<b>Balance at end of reporting period</b>	<b>4,075</b>	<b>4,075</b>	<b>9,034</b>	<b>4,959</b>	<b>122%</b>
<b>1,113,785</b>	<b>TOTAL EQUITY AT END OF REPORTING PERIOD</b>	<b>1,168,949</b>	<b>1,169,069</b>	<b>1,159,071</b>	<b>(9,998)</b>	
470,924	Accumulated Surplus	498,828	498,948	489,318	(9,630)	
642,861	Reserves	670,121	670,121	669,753	(368)	(0%)
<b>1,113,785</b>	<b>TOTAL EQUITY AT END OF REPORTING PERIOD</b>	<b>1,168,949</b>	<b>1,169,069</b>	<b>1,159,071</b>	<b>(9,998)</b>	



City of Playford  
Statement of Cash Flows - Mid Year Forecast  
For the year ended 30 June 2021

2019/20 Actual \$000's		2020/21 Original Budget \$000's	2020/21 BR1 \$000's	2020/21 Mid Year Forecast \$000's	Variance Fav/(Unfav) \$000's	Variance Fav/(Unfav)
Inflows / (Outflows)		Inflows / (Outflows)	Inflows / (Outflows)	Inflows / (Outflows)		
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>						
<b>Receipts</b>						
14	Investment Receipts	15	15	15	0	
111,934	Operating Receipts	111,354	111,284	107,346	(3,937)	(4%)
<b>Payments</b>						
4,993	Finance Payments	(5,044)	(5,212)	(4,557)	655	13%
79,902	Operating Payments to Suppliers and Employees	(81,401)	(81,048)	(82,560)	(1,512)	(2%)
27,053	<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	24,924	25,038	20,244	(4,794)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
<b>Receipts</b>						
97,000	Proceeds from borrowings	17,294	31,774	31,774	-	-
<b>Payments</b>						
97,465	Repayment of borrowings	(8,005)	(8,001)	(3,207)	(4,794)	(60%)
181	Repayment of Lease Liabilities	-	-	-	-	
(646)	<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	9,289	23,773	28,567	(4,794)	
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>						
<b>Receipts</b>						
765	Sale of Replaced Assets	-	-	-	-	
788	Sale of Surplus Assets	4,476	4,476	4,476	-	-
2,494	Amounts Received Specifically for New/Upgraded Assets	4,946	5,070	5,070	-	-
12	Repayments of Loans by Community Groups	-	-	-	-	
<b>Payments</b>						
16,848	Expenditure on Renewal/Replacement of Assets	(19,907)	(24,205)	(24,205)	-	-
12,202	Expenditure on New/Upgraded Assets	(23,728)	(34,152)	(34,152)	-	-
-	Loans Made to Community Groups	-	-	-	-	
(24,991)	<b>NET CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES</b>	(34,213)	(48,811)	(48,811)	-	
1,416	<b>NET INCREASE (DECREASE) IN CASH HELD</b>	-	0	0	(0)	
468	<b>CASH AT BEGINNING OF REPORTING PERIOD</b>	1,500	1,500	1,500	-	-
1,884	<b>PROJECTED CASH AT END OF REPORTING PERIOD</b>	1,500	1,500	1,500	(0)	

City of Playford  
Uniform Presentation of Finances - Mid Year Forecast  
For the year ended 30 June 2021

2019/20 Actual \$000's		2020/21 Original Budget \$000's	2020/21 BR1 \$000's	2020/21 Mid Year Forecast \$000's	Variance Fav/(Unfav) \$000's	Variance Fav/(Unfav)
106,680	Operating income	111,933	111,863	107,926	(3,938)	(4%)
(101,856)	Less: Operating expenditure	(108,063)	(107,997)	(108,946)	(949)	(1%)
4,824	<b>Operating Surplus / (Deficit)</b>	3,870	3,866	(1,020)	(4,886)	
	<b>Less: Net outlays on existing assets</b>					
16,848	Capital expenditure on renewal and replacement of existing assets	19,907	24,205	24,205	-	-
(20,683)	Less: Depreciation	(21,191)	(21,309)	(21,401)	(92)	0%
(765)	Less: Proceeds from sale of replaced assets	-	-	-	-	
(4,600)	<b>Net Outlays on Existing Assets</b>	(1,284)	2,896	2,804	(92)	
	<b>Less: Net outlays on new and upgraded assets</b>					
12,202	Capital expenditure on new and upgraded assets	23,728	34,152	34,152	-	-
(2,494)	Less: Grants and contributions specifically for new and upgraded assets	(4,946)	(5,070)	(5,070)	-	-
(788)	Less: Proceeds from sale of surplus assets	(4,476)	(4,476)	(4,476)	-	-
8,920	<b>Outlays on New and Upgraded Assets</b>	14,306	24,606	24,606	-	
504	<b>NET LENDING / (BORROWING) FOR FINANCIAL YEAR</b>	(9,152)	(23,636)	(28,430)	(4,794)	

## 5.2 EXTERNAL AUDIT PLAN - INTERIM AUDIT 20-21

**Responsible Executive Manager :** Mr Sam Green

**Report Author :** Mr Ninad Sinkar

**Delegated Authority :** Matters for Information.

**Attachments :** 1 [↓](#). BDO External Audit plan 2021

### Purpose

Provide the Committee with the External Audit Plan for the 2020/21, interim audit. With a view to seeking feedback on the audit scope from the Committee, pursuant to section 2.2 (d) of the Corporate Governance Committee Charter.

### STAFF RECOMMENDATION

The Committee receive and endorse the 2020/21 external audit plan and scope.

### Relevance to Strategic Plan

City of Playford is committed to delivering efficient services and this includes an effective external audit program.

### Relevance to Public Consultation Policy

Audit scope and plan, do not require public consultation.

### Background

BDO were appointed as external auditors of City of Playford on 1st October 2020.

BDO have been engaged to provide an audit opinion as to whether the financial report of City of Playford, presents fairly, in all material respects, the Council's financial position as at the 30<sup>th</sup> of June 2021 and its financial performance for the year ended on that date in accordance with Australian Accounting Standards, the *Local Government Act 1999*, and the *Local Government (Financial Management) Regulations 2011*.

Two key components of the engagement are the interim (controls) audit and the final audit of the draft financial statements, comprised of the statement of financial position, statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flow and notes to the financial statements.

With reference to section 2.2 of the Corporate Governance Committee Charter, the Committee has agreed to undertake the following activities, with regards to the external audit:

- a) Keep under review the effectiveness of the Council's internal controls, audit and risk management systems.
- b) Review and recommend the approval, where appropriate, of statements to be included in the annual report concerning internal controls and risk management.

- c) Receive reports on the activities of the Chief Executive Officer's Strategic Risk and Internal Audit Program.
- d) consider and make recommendations on the program of the internal controls and audit including the adequacy of resources and access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.

### **Current Situation**

BDO have provided Council with the attached 2020/21 audit plan in preparation for the upcoming Interim audit in February. The audit plan provides information on the audit scope, methodology, planned approach and timetable.

During the interim audit BDO need to undertake a reasonable assurance program, on the design and the operating effectiveness of the controls established by the City of Playford. Covering financial transactions relating to the receipt, expenditure and investment of money, acquisition and disposal of property and incurring of liabilities, throughout the period 1 July 2020 to 30 June 2021, ensuring such transactions have been conducted properly and in accordance with law.

Internal controls testing gives BDO the level of assurance they require in forming the opinion that the financial reports of City of Playford, present fairly, the Council's financial position and performance for the 2020/21 financial year.

The interim audit will be managed by the Internal Auditor.

### **Future Action**

Interim audit findings will be presented to the Committee in accordance with the Corporate Governance Committee Charter.



# **CITY OF PLAYFORD**

Annual audit plan

30 June 2021

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Dear Corporate Governance Committee Members

Thank you for the opportunity to present our annual audit plan ('plan') for City of Playford for the year ending 30 June 2021.

Our plan has been developed with input from City of Playford management and continues to be based on our understanding of City of Playford's business and operating environment.

We acknowledge that throughout the year there may be business developments, circumstances may change and additional matters may arise. Our plan will be responsive to your needs and will maximise audit effectiveness so we can deliver the high-quality audit you expect.

This plan is intended solely for management and the Corporate Governance Committee and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss our plan with you at the Corporate Governance Committee on 2 February 2021.

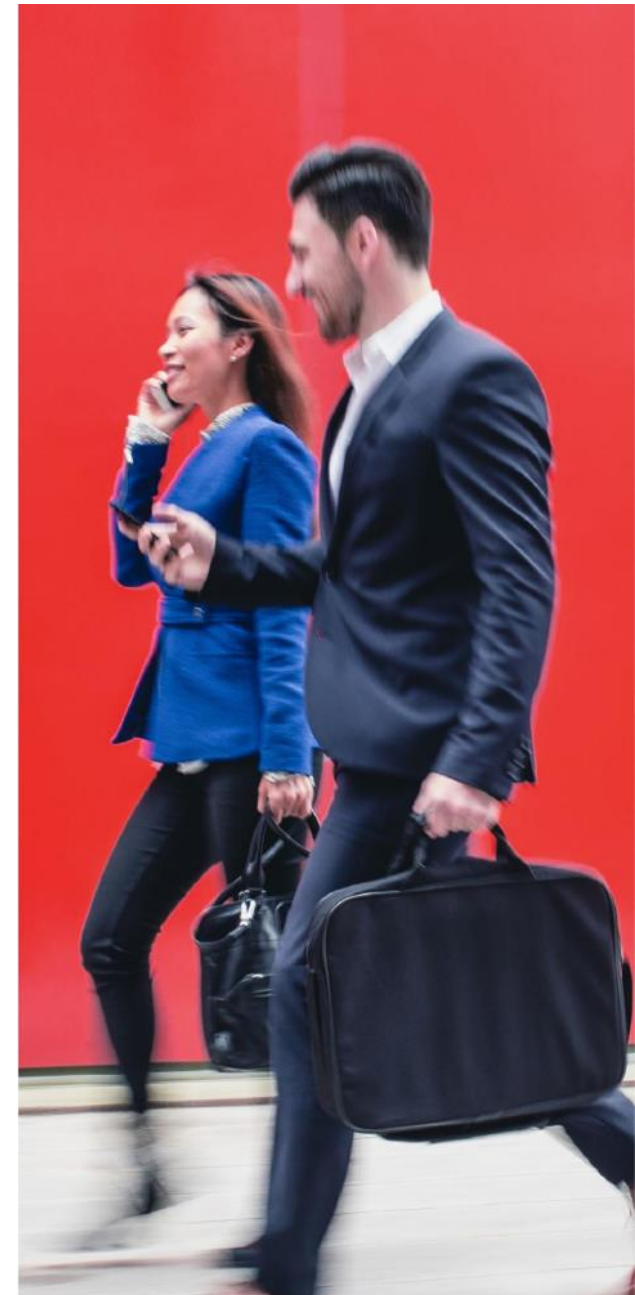
Please feel free to contact me on +61 8 7324 6082 if you have any questions or would like to discuss the content of this plan further.

Yours faithfully



Andrew Tickle  
Lead audit partner

Adelaide, 15 January 2021





### YOUR BDO TEAM

Our audit of City of Playford will be led by Andrew Tickle as Engagement Partner. Andrew will oversee the co-ordination of the audit and will have primary responsibility for working with Sam Grieve and her team.

Supporting Andrew will be Chelsea Aplin as audit manager.

Chelsea is responsible for the day-to-day direction of the audit work and is the key point of contact for Sam Grieve.

The day-to-day audit team will be led by Chelsea Aplin.

### SPECIALISTS

When auditing key judgements, we are often required to engage specialists who have qualifications and expertise not possessed by the core audit team. Supporting the engagement team will be a Jason Foster, our IT Specialist, who will be dedicated to reviewing City of Playford's IT environment and any relevant IT general controls for audit.



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## AUDIT OBJECTIVES AND APPROACH

### AUDIT OBJECTIVES

The objective of the audit is to enable us to express an opinion as to whether:

- ▶ The financial report is prepared, in all material respects, in accordance with Australian Accounting Standards, the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*, and
- ▶ Controls exercised by Council in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with law based on criteria in the Better Practice Model - Financial Internal Control for South Australia Councils issued by the Local Government Association of South Australia.

### OUR APPROACH

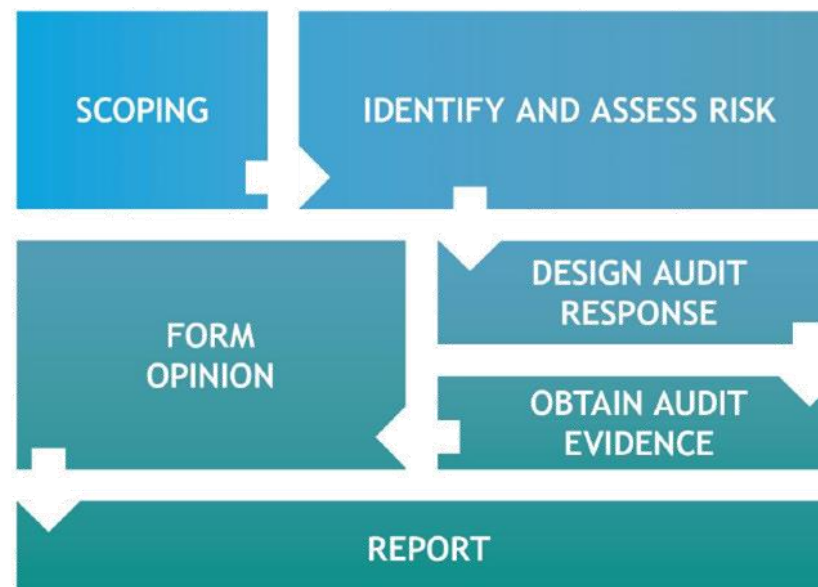
Our audit is performed in accordance with the BDO Audit Approach which consists of six phases and is documented using our global audit tool, APT.

The approach is centred around:

- ▶ Obtaining an understanding of the business being audited from an internal and external point of view
- ▶ Assessing the risk of material misstatements and the controls in place to address and prevent these risks
- ▶ Choosing appropriate procedures to obtain evidence, including the use of data analytics where appropriate

- ▶ Ensuring rigorous quality control over audit performance
- ▶ Providing constructive ideas for improving internal controls and business systems.

A summary of the other key aspects of the BDO Audit Approach is set out on subsequent pages.



## OUR APPROACH CONTINUED

### INTERNAL CONTROL

We obtain an understanding of the system of internal control relevant to the audit to assist us with our risk assessment procedures. Our understanding covers:

- ▶ The overall control environment
- ▶ The entity's risk assessment process
- ▶ The information system, including the related business processes, relevant to financial reporting, and communication
- ▶ Control activities relevant to the audit
- ▶ Activities the entity uses to monitor internal control relevant to financial reporting.

This understanding is also supported by our assessment of internal controls based on the criteria in the Better Practice Model - Financial Internal Control for South Australian Councils, to allow us to express an opinion on the matters set out in Section 129(b) of the Local Government Act 1999.

Any deficiencies that come to our attention during our assessment are initially discussed with management to discuss the reason and potential effects of the deficiency as well as any mitigating controls.

These are reported to the Corporate Governance Committee, with recommendations and management comments, in our annual completion report that is provided at the completion of our audit.

### FRAUD

During the course of our audit we make enquiries of those charged with governance, management and others to identify any known instances of fraud. We also make enquiries to understand where you consider the risks are in relation to fraud and if you have any knowledge of actual or suspected fraud. This also includes considering the risk of management override of controls.

It should be noted that our audit is not designed to detect fraud however, should instances of fraud come to our attention, we will report them to you.



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## OUR APPROACH CONTINUED

### AUDIT QUALITY AND PROFESSIONAL SCEPTICISM

To support and promote audit quality at BDO, we have implemented an Audit Quality Framework (AQF) that sets out the key drivers of audit quality, including the specific attributes that are important for audit quality to be maintained and enhanced. Refer to our [Transparency report](#) for further information.

The AQF recognises that professional scepticism is essential to obtain audit evidence which is sufficient and appropriate to reduce the likelihood of a material misstatement to an acceptable level.

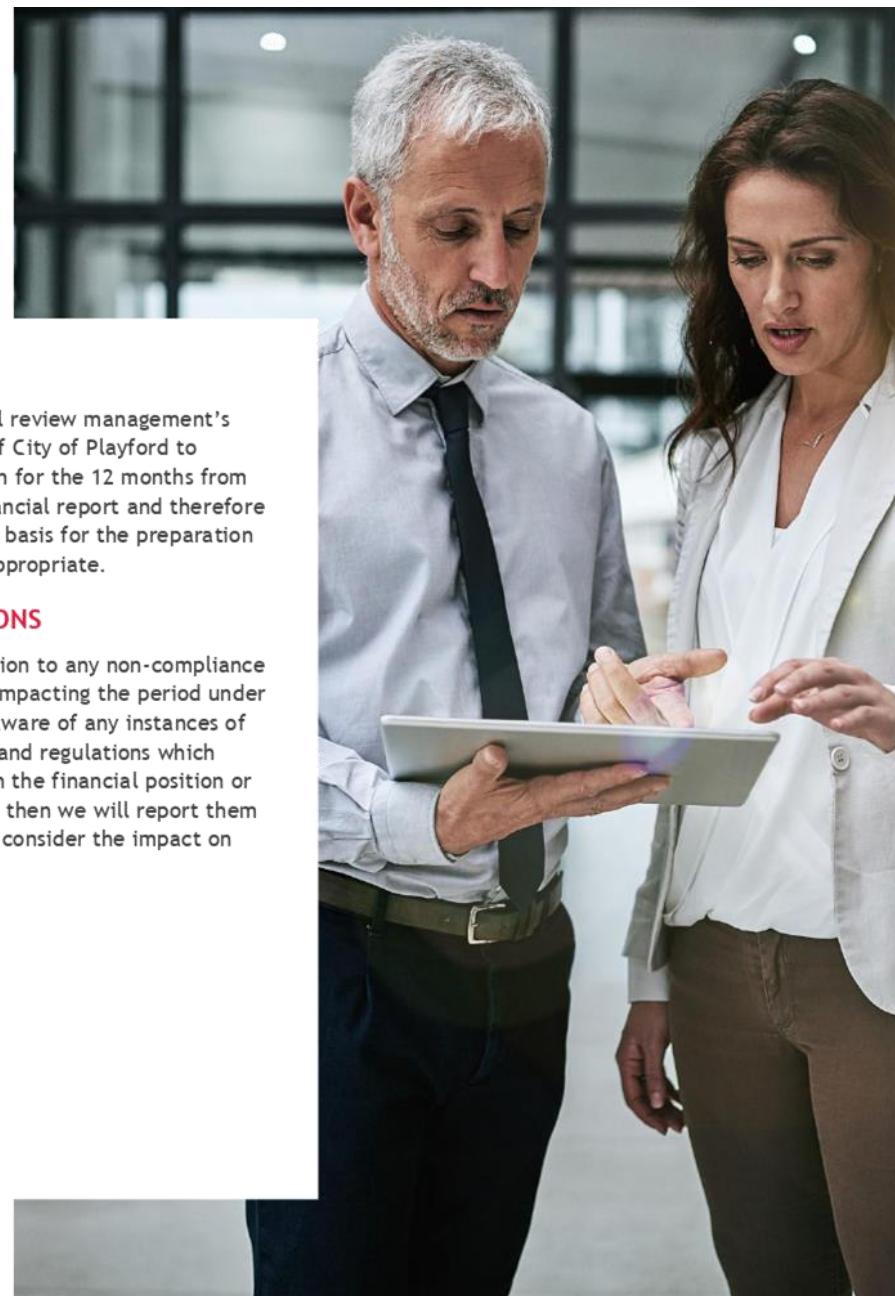
The application of professional scepticism by all members of the engagement team is central to BDO's Audit Approach.

### GOING CONCERN

As part of our audit we will review management's assessment of the ability of City of Playford to continue as a going concern for the 12 months from the date of signing the financial report and therefore whether the going concern basis for the preparation of the financial report is appropriate.

### LAWS AND REGULATIONS

We make enquiries in relation to any non-compliance with laws and regulations impacting the period under audit. Should we become aware of any instances of non-compliance with laws and regulations which would materially impact on the financial position or performance of the entity, then we will report them to you on a timely basis to consider the impact on the financial report.





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## MATERIALITY

Materiality means, in the context of an audit, if financial information is omitted, misstated or not disclosed it has the potential to (adversely) affect the decisions of users of the financial report. Materiality is used by auditors in making judgements on the amount of work to be performed, which balances require work and for evaluating the effect of misstatements. Materiality is initially calculated at the planning stage and re-assessed prior to providing our opinion.

During the course of our audit we may identify misstatements and these will be reported to you at the conclusion of our work based on our assessment of materiality at that stage (this may have been updated from the materiality calculated at the planning stage). It should be noted that the auditing standards do not require us to communicate misstatements that are considered 'clearly trivial' and as such, if we identify such misstatements we will not communicate these to you.

We determine materiality by considering a range of both qualitative and quantitative factors when applying our professional judgement.



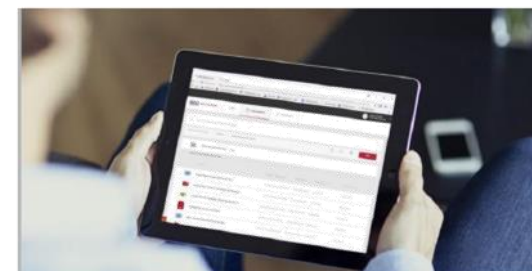
## ENHANCING THE CLIENT EXPERIENCE

### BDO'S CLIENT PORTAL

To enhance our communication and to reduce any potential expectation gaps, we will use the BDO Global Portal ('portal').

In addition to facilitating the secure exchange of information, the use of the portal assists with project management and provides a live view of progress to both BDO and City of Playford.

We will consult with you about how you would like us to communicate during the engagement, and the frequency of our status updates. In addition, whether it is to provide ad-hoc support, brainstorm ideas, or discuss any aspect of our services, the portal can assist. The key features of the portal are illustrated below:



### ONLINE CLIENT COLLABORATION

- ▶ Upload information and documentation in one secure place
- ▶ Track actions and milestones for BDO and client responsibilities.



### A FLEXIBLE, SECURE PLATFORM WITH LOCAL CUSTOMISATION

- ▶ Security - permission and access can be set at a project level for different users such as your staff or our BDO teams
- ▶ You can receive a daily or weekly digest, summarising all activity that has occurred on the portal
- ▶ View document audit trails, reducing the risk of email misdirection.



### DIGITISED PAPERWORK AND WORKFLOW

- ▶ Approve and sign documents all within the portal, allowing for better transparency and speedier project progress
- ▶ Set dates with calendar reminders for when BDO requires certain documentation or information to be uploaded or completed
- ▶ Assign tasks to specific users
- ▶ Portal supports multiple document types and views.



## RISK ASSESSMENT AND AREAS OF AUDIT FOCUS

In line with our audit approach, and based on our understanding of City of Playford, we have identified and assessed the risks of material misstatement at both the engagement and assertion level.

Our audit procedures are focused on areas that are considered to represent risks of material misstatement to the financial report. We identified the risk areas as part of our risk assessment procedures during the planning phase and will continue to be alert for risks during the course of the audit. We set out below the key areas of focus, our perspective of the potential impact on the financial statements and our proposed approach. The associated risks are categorised between those that are considered to be significant and other than significant.

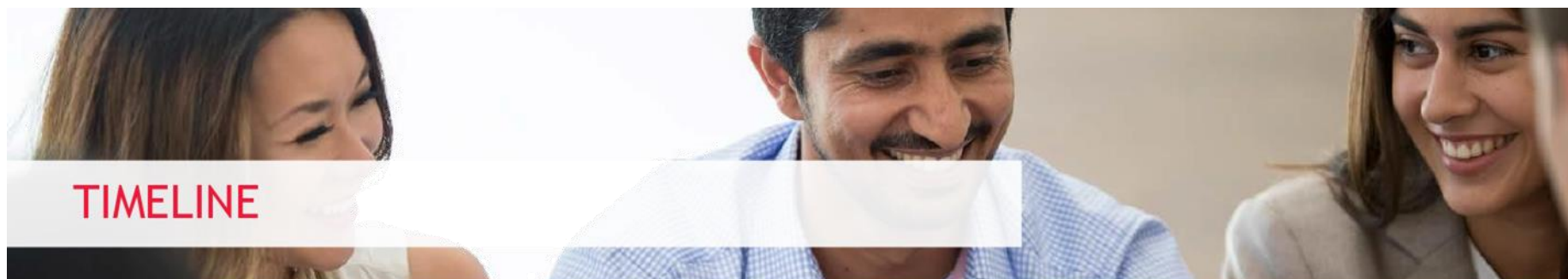
AREAS OF FOCUS	OUR PERSPECTIVE	PLANNED RESPONSE
Revaluation, depreciation, useful lives and residual values of infrastructure assets	Council's infrastructure, property, plant and equipment are carried at valuation. There is a risk that these balances are misstated as a result of the application of inappropriate valuation methodologies, or incorrect underlying assumptions.	We will evaluate the competence, capability and objectivity of the independent valuers, obtain an understanding of their work and evaluate its appropriateness.
Accounting treatment of capital work in progress (WIP)	There is a risk that the accounting treatment of items captured within capital WIP may not be in accordance with Australian Accounting Standards.	We will obtain the WIP schedule and review in detail a sample of projects outstanding at the end of the year to ensure they are likely to generate assets. We will also review a sample of assets transferred out of capital WIP to ensure that the categorisation and value allocated to assets are appropriate.
Management override of controls	Australian Auditing Standards require that we presume there is a risk that management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively.	We will test the appropriateness of journal entries and other adjustments made in the preparation of the financial report. We will also review accounting estimates for bias, and evaluate the business rationale (or lack of) of any significant transactions that are outside the normal course of business or that otherwise appear to be unusual.





## RISK ASSESSMENT AND AREAS OF AUDIT FOCUS *CONTINUED*

AREAS OF FOCUS	OUR PERSPECTIVE	PLANNED RESPONSE
Accounting treatment and disclosures of amounts relating to Council's interest in Northern Adelaide Waste Management and Gawler River Flood Management Authority.	There is a potential risk in relation to the accounting treatment and disclosure of amounts relating to Council's interest in Northern Adelaide Waste Management and Gawler River Flood Management Authority, including any changes occurring during the year, may not be in accordance with Australian Accounting Standards.	We will obtain the statutory financial statements for Northern Adelaide Waste Management and Gawler River Flood Management Authority for the year ending 30 June 2021 and the Council's calculation of their proportional interest, and compare this to the amounts and disclosures within the financial statements.
Accounting treatment for grant funding	There is a potential risk of error in the calculation of grant income recognised and deferred at year end by reference to grant agreements and Australia Accounting Standards.	We will obtain a schedule of grant income recognised and deferred at year end. We will select a sample of grants and obtain the agreements to review in detail and ensure that they have been recognised in accordance with applicable accounting standards.
Credit cards transactions	There is a risk that credit card transactions incurred are not in line with the Council's credit card policy and were not a proper use of public money.	We will review a sample of credit card transactions to ensure the transactions have been appropriately independently reviewed; incurred in line with the current credit card policy and clearly demonstrate the proper use of public money.



### AUDIT MILESTONES

We recognise that regular, timely communication with management and the Corporate Governance Committee is critical to maintaining an effective and transparent relationship. Our audit process operates throughout the year so that we can respond to issues as they arise and maintain close communication, with management and the Corporate Governance Committee, as the audit cycle progresses.

We have set out below the timing of significant milestones to include on-site visits, key meeting dates and reporting deadlines with respect to the completion of the audit.

MILESTONE	DATE
Corporate Governance Committee meeting and submission of Annual Audit Plan	2 February 2021
Internal Control audit requirements to be uploaded to the Client Portal	Prior to 1 February 2021
Corporate Governance Committee meeting and submission of Annual Audit Plan	2 February 2021
Interim audit visit commences, including review of controls and transactional testing	15 February 2021
Audit requirements to be uploaded to the Client Portal	Early June 2021
Draft financial statements to be provided to auditors	18 August 2021
Final audit visit commences	23 August 2021
Close out meeting with management	27 August 2021
Audit clearance	24 September 2021
Corporate Governance Committee meeting and submission of audit completion report	5 October 2021
Chief Executive Officer and Principal Member of the Council to approve and sign off Regulation 14 Certification of Financial Statements, Certificate of Auditor Independence and management representation letter	TBC October 2021
Issue Independent Auditor's Report and Statement by Auditor in relation to Independence	TBC October 2021





## FEES

Our agreed fee for audit services provided for the year ending 30 June 2021 is \$32,525. All amounts are exclusive of GST.

This fee compasses the audit of:

- ▶ Annual financial statements
- ▶ Internal controls
- ▶ Roads to Recovery Chief Executive Officer's Financial Statement
- ▶ LGAWCS Actual Wages Declaration

Charges to other grant acquittals will depend on the complexity and nature of the acquittal. Fee proposals will be provided on an acquittal basis and work will not be commenced until a fee has been agreed.

## ASSUMPTIONS

This is a fee estimate only and not a fixed price fee arrangement. We invoice the actual costs to complete the audit. Any reasonable out of pocket expense are charged to you as disbursements when incurred. Our estimate is based on our understanding of your current operations and the required scope of the audit. If these alter, the fee estimate will need to be revised.

Our estimated fees do not include any advice or assistance that may be given in respect of accounting issues. Whilst brief ad hoc information provided in the course of our audit is generally included in our proposed fee, formal advice, assistance with complex issues or meetings to discuss these issues falls outside the scope of our proposed fee. Fees for assistance provided will be negotiated prior to services being performed.

## ASSISTANCE REQUIRED

In order to keep our time and costs to a minimum, we appreciate your assistance with the following:

- ▶ Management providing all deliverables in line with the agreed timetable
- ▶ Assistance from your staff with supporting documentation and explanations during the audit process
- ▶ Disclosure by your staff of all information relevant to the engagement in a timely manner
- ▶ Prior to the commencement of our audit, we will provide you with an audit preparation package.



## APPENDIX 1 NEW DEVELOPMENTS

### WHAT'S NEW FOR YOUR FINANCIAL REPORT?

#### AASB 2020-4 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS - COVID-19 RELATED RENT CONCESSIONS

Effective for annual reporting periods beginning on or after 1 June 2020, this change introduces a practical expedient that permits lessees not to assess whether a rent concession that occurs as a direct consequence of the COVID-19 pandemic is a lease modification, provided all of the following criteria are met:

- ▶ Change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately prior to the change
- ▶ Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a concession would meet this condition if it resulted in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021)
- ▶ There is no substantive change to other terms and conditions of the lease.

In such cases, the concessions are accounted for as if they were not a lease modification. On first time adoption for the year ended 30 June 2021, the cumulative effect of initially applying the amendment will be recognised as an adjustment to opening balances of retained earnings on 1 July 2020.

#### AASB 2020-1 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS - CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT

Effective for annual reporting periods beginning on or after 1 January 2022, there are four main changes to the classification requirements within AASB 101 *Presentation of financial statements*:

1. The requirement for an 'unconditional' right has been deleted from paragraph 69(d) because covenants in banking agreements would rarely result in unconditional rights.
2. The right to defer settlement must exist at the end of the reporting period. If the right to defer settlement is dependent upon the entity complying with specified conditions (covenants), the right to defer only exists at reporting date if the entity complies with those conditions at reporting date.
3. Classification is based on the right to defer settlement, and not intention (paragraph 73), and
4. If a liability could be settled by an entity transferring its own equity instruments prior to maturity (e.g. a convertible bond), classification is determined without considering the possibility of earlier settlement by conversion to equity, but only if the conversion feature is classified as equity under IAS 32.

As these amendments only apply for the first time to the 30 June 2023 balance sheet (and 30 June 2022 comparative balance sheet), companies are not yet able to make an assessment of the impacts regarding the right to defer settlement, compliance with bank covenants, and intention to settle.



## APPENDIX 2 OTHER COMMUNICATIONS

### ETHICS AND INDEPENDENCE

In conducting our audit, we are required to comply with the independence requirements of the *Local Government Act 1999*, the *Local Government (Financial Management) Regulations 2011* and Part 4A of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

We obtain independence declarations from all staff engaged in the audit. We also have policies and procedures in place to identify any threats to our independence, and to appropriately deal with and if relevant mitigate those risks.

Should any independence matters arise, we will bring them to your immediate attention.

For the comfort of those charged with governance, we note that the following processes assist in maintaining our independence:

- ▶ Restrictions on BDO employees having financial interests in audit clients
- ▶ No other work is permitted to be undertaken by any BDO division or office without the express approval of the engagement director/partner
- ▶ Services including valuation and similar services are specifically prohibited to be provided by any other BDO office to you
- ▶ All services performed by any BDO division or office have been reported below.


BDO has not provided any other services during the year to City of Playford.

### COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

City of Playford has an Corporate Governance Committee and it is common practice for the auditor to liaise directly with the Corporate Governance Committee. All our reporting will be to Chairman of Corporate Governance Committee.

To enhance our communication and to reduce any potential expectation gaps with clients, BDO has adopted a structured reporting system. We will communicate with the Corporate Governance Committee and management through various means. This includes but is not limited to:

- ▶ This audit plan
- ▶ Management letter after each audit visit
- ▶ The BDO Client Portal
- ▶ An audit completion report at the conclusion of the audit
- ▶ The audit report.



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We have prepared this report solely for the use of City of Playford. As you know, this report forms part of a continuing dialogue between the company and us and, therefore, it is not intended to include every matter, whether large or small, that has come to our attention. For this reason we believe that it would be inappropriate for this report to be made available to third parties and, if such a third party were to obtain a copy of this report without prior consent, we would not accept any responsibility for any reliance they may place on it.

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### 5.3 ICAC IMPLEMENTATION PROGRAM - JANUARY 2020

**Responsible Executive Manager :** Mr Barry Porter

**Report Author :** Mr Adam Cox

**Delegated Authority :** Matters for Information.

**Attachments :** 1 [↓](#). ICAC Monthly Status Update

#### **Purpose**

To provide the Committee with the update with regards to the progress of the implementation of the ICAC and Auditor General Recommendations program of works.

#### **STAFF RECOMMENDATION**

The Committee note and receive the ICAC Monthly Status Update (Attachment 1).

#### **Relevance to Strategic Plan**

The implementation of the recommendations from ICAC and the Auditor General will positively impact service delivery to our community through greater accountability and transparency of decision making, reporting and records management.

#### **Relevance to Public Consultation Policy**

The reports issued by ICAC and the Auditor General are publically available reports. There is no requirement to consult with the community regarding implementation of the recommendations from these reports.

#### **Background**

The report received from ICAC in November 2019 and the Auditor General in March 2020 contained a list of recommendations. These recommendations are included in Attachment 1 as appendices to the status report.

Council administration have undergone a scoping exercise to prepare a program of works to implement these recommendations over the course of the next 12-18 months.

**Current Situation****Status Update**

The status update report is provided in Attachment 1. It provides a summary of:

- Program outcomes,
- Traffic light status update showing all items tracking well with no significant concerns,
- Key achievements for the month,
- The focus work for next month,
- Key risks and mitigating actions,
- Summary of decisions made,
- Policy review schedule adherence,
- Detailed list of the recommendations and the status of whether these have been successfully implemented or are still a work in progress.

**Future Action**

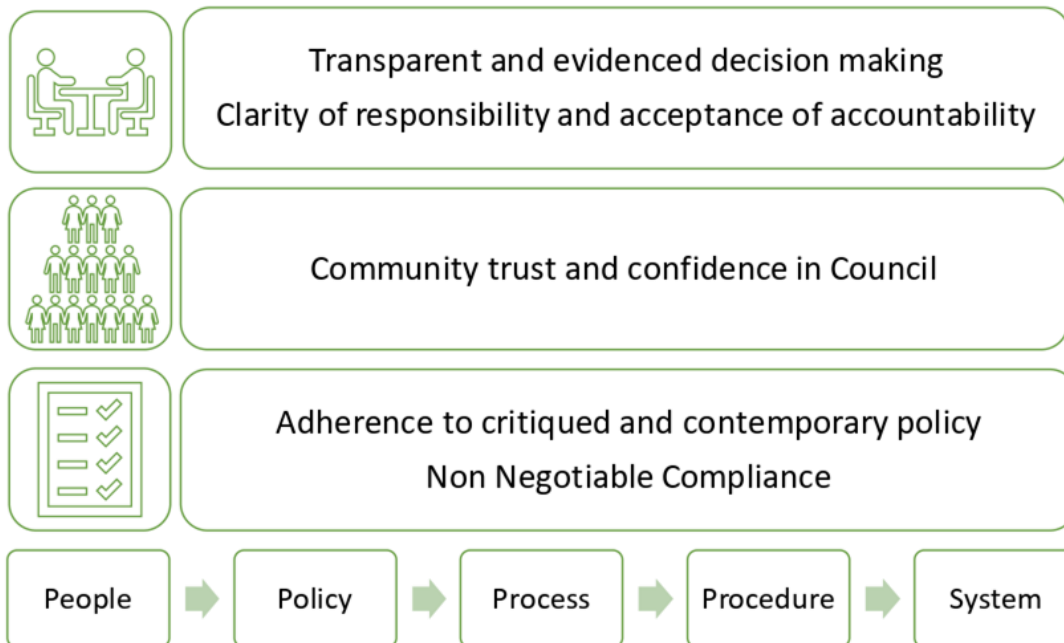
Provide monthly updates to the Committee on the progress of the program of weeks and seek feedback and decision on items where required.





# ICAC RESPONSE PROGRAM

## OVERALL EXPECTED OUTCOMES



**Status Update**

**Date: Jan 2021**

# STATUS UPDATE

Overall Status Summary			
	Last Period	This Period	Outlook
Overall	G	G	→
Scope	G	G	→
Schedule	G	A	→
Cost	G	G	→
Benefits	G	G	→
Resources	G	G	→
Confidence	G	G	→

Project Stream	Last Period	This Period	Future Outlook
Elected Member Engagement	G	G	→
Policy & Procedure	A	G	→
Procurement	G	G	→
Human Resource Management	G	G	→
Records	A	G	→

Key:			
G	Tracking well, no significant concerns		
A	Some concerns that need resolution		
R	Significant concerns that need intervention		
↑	Situation Improving		
↓	Situation Declining		
→	Situation Stable		

		Program Schedule																	
Stream	Deliverable	FY21										FY22							
		Q1		Q2		Q3		Q4		Q1		Q2							
		Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	
Elected Member Engagement	Review of Committees																		
	Redesign of Terms of Reference, Roles & Responsibilities																		
Policy & Guideline Framework	New and Update Process																		
	Governance Framework & Systemisation																		
Procurement	Review																		
	Policy Update																		
Human Resource Management	Recruitment Process & Systemisation																		
	Recruitment Upskilling																		
Records Management	Process & Systemisation																		
	Governance Framework																		
	Education																		
	Audit																		
	Historical Rectification																		

Original Plan Delay Brought forward

Schedule Commentary	
-	87 of 100 policy business cases submitted for CEO approval and 74 granted approval to proceed to policy review.
-	Records schedule amended to recommence in March 2021, with the exception of sourcing record expertise and engaging organisations on their records approach.



### Key Achievements Last Month

#### Policy & Procedure

- 87 business cases to be submitted for CEO approval
- Policy writing workshop conducted and made available on the intranet
- Council resolved to establish a Policy Review Committee to review policies, provide advice and make recommendations to Council regarding policies requiring Council consideration
- Staff Consultation Click page created to enable centralised policy staff feedback
- SLT and middle manager communication on the Policy Review Committee
- System Specification document completed to assist configuration

#### Human Resources: - Recruitment

- User acceptance testing completed
- Agreed assurance approach with the Internal Auditor for Steering Committee review
- Communication with SLT and middle managers on designed recruitment process
- Organisational Development team member training conducted

#### Human Resources: - Performance Appraisal

- Executive intent session held to inform detailed scope

#### Procurement

- Executive approved procurement framework design
- Executive supported the principle of a centre lead purchasing model
- Creation of system functional requirements
- Agreed assurance approach for Steering Committee review
- Detailed stakeholder impact assessment completed

#### Records

- Executive sign off of the scope document
- Received RFQ for consultancy to source records Subject matter expertise
- Survey template created to assist in the identification and location of records

### Focus for Next Month

#### Elected Member Engagement

- Executive agreement of project level scope and timing of delivery

#### Policy & Procedure

- 19 business cases to be submitted for CEO approval
- 25 policies to proceed to Executive review
- Agreement on Policy Review Committee meeting schedule
- Steering Committee agreement of assurance approach
- System solution configuration
- Create user acceptance test plans

#### Human Resources:- Recruitment

- Address system issues identified in user testing
- Decision to promote system solution to live environment
- Design recruitment training

Human Resources: - Performance Appraisal

- Executive approval of the scope document
- Build out detailed projects tasks to align to approved scope

Procurement

- Create communication, resistance and training plan
- Validate the current system can meet requirements to facilitate the process
- Commence system configuration of workflow
- Create user acceptance test cases scenarios
- Centre lead purchasing model analysis into human resource implications, transition arrangements and financial implications

Records

- Engage peer councils and other organisations on their approach to records management
- Select records consultancy to support delivery

Key Decisions	Decision Maker	Status

Current Key Risks & Issues				
Date	Type	Description	Mitigating Action	Status
1/10/20	Risk	Delay in records project due to lack of subject matter expertise and capability to design framework	Identify the skill gap required Source the required skillset	Closed In progress
1/11/20	Risk	Completion of policy review and update due to the capacity of governance to complete required updates with other priorities	Source external short term resource for cover immediate need Source fixed-term resource to support program and BAU ongoing	Closed In progress

Policy Schedule Status										
Not scheduled to commence	Status	CEO Business Case Sign off	Policy Review	Staff Consultation	Council Consultation	WHS Committee Consultation	WRCC Consultation	Community Consultation	CEO Endorsement	Council Endorsement
13	Received/Commenced	87	74							
	In Progress	13	74							
	Agreed/Completed	74	0							
	% Completed	74%	0	0	0	0	0	0	0	0
13%	Overdue	4	2	0	0	0	0	0	0	0
	% Adherence to Schedule	95%	98%	100%	100%	100%	100%	100%	100%	100%
	Total Volume	100	100	100	39	8	13	4	100	39

Deliverables				
Stream	Project Stream Deliverable	Audit Recommendation		
		ICAC Commissioner	Auditor General	Norman Waterhouse
Elected Member Engagement	Review of Committees	Observation		
	Terms of Reference, Roles & Responsibilities			
Policy & Procedure Framework	New and Update Process	1,2,3,4,5,6,7,8	5.3.1(a), 5.3.1(b), 5.3.2(a), 6.3.3(a), 7.3.1(a)	2
	Governance Framework			
	Review			
	Policy Update			
Procurement	Policy Update	1,18,19,20,21	4.3.1(a), 6.3.1(a), 6.3.1(b), 6.3.2(a), 6.3.2(b), 6.3.3(b), 6.3.5(a)	
	Process & Role Definitions			
	Records Management			
	Credit Card Governance Systemisation			
Human Resource Management	Recruitment Process & Systemisation	1,13,14,15,16,17		1,3
	Recruitment Upskilling			
	Performance Appraisal Process & Systemisation			
	Performance Appraisal Upskilling			
Records Management	Process & Systemisation	1,9,10,11,12		
	Governance Framework			
	Education			
	Audit & Historical Rectification			

## Appendices

Recommendation Status Definition	
Status	Description
Delayed	Activity has been delayed, mitigating actions to address
In Progress	Activity on track with regards to approved road map timing
Ready for Sign off	Steering Committee agreed to request Executive Sign off
Implemented	Executive Sign off solution has been implemented to meet the recommendation and assurance process agreed

1.0

ICAC Commissioner Recommendations				
No.	Recommendation	Project Stream Addressing	Status	Forecasted Implemented date

1	Develops an agreed set of organisational values which underpin the day to day activities and conduct of staff.	All	Implemented	
2	Develops a policy governance framework that addresses the lifecycle of a policy including creation, approval, dissemination, education and review. The framework should be consistent with the principles articulated in this report.	Policy & Procedure	In Progress	May 21
3	Mandates the review by the council governance team of all draft policies prior to presentation of the draft policy for approval.	Policy & Procedure	In Progress	May 21
4	Amends its practices to ensure that council policies may only be approved by the Chief Executive Officer or the elected body.	Policy & Procedure	In Progress	May 21
5	When approving a new or amended policy the Chief Executive Officer or the elected body also determine and approve an appropriate dissemination and education strategy to be applied in respect of that new or amended policy.	Policy & Procedure	In Progress	May 21
6	Prepares a schedule for the review of all existing policies and for that review to be completed within 12 months of the tabling of this report.	Policy & Procedure	Implemented	
7	Within 18 months of the tabling of this report ensures that all current policies represent expected contemporary practice.	Policy & Procedure	In Progress	May 21
8	Develops and implements, in accordance with the proposed policy governance framework, a fraud and corruption control policy modelled on Australian Standard AS8001 – 2008.	Policy & Procedure	In Progress	May 21
9	Develops a new records management policy with accompanying procedures which reflect contemporary records management practices and, in particular: ◁ mandates the use of an established records management system for the storage of official records except for limited circumstances that are prescribed in the policy; ◁ makes express reference to the appropriate storage of emails in a manner consistent with the State Records Act; ◁ defines the precise responsibility of each employee in respect of the management of official records together with the particular responsibilities given to the records management team.	Records	In Progress	May 21
10	Engages in an audit of records currently held on network drives and within email servers to identify those records that ought to be stored on an approved records management system and, upon the conclusion of such an audit, develop and implement a process for those records to be transferred to those systems.	Records	In Progress	Sept 21
11	Develops and delivers an education program to all elected members and employees in respect of their records management obligations and	Records	In Progress	Mar 21

	the requirements contained within the updated records management policy and procedures.			
12	Develops and implements a process for regular audits to ensure records management practices are consistent with policy.	Records	In Progress	Sept 21
13	Reconsiders its approach to managing actual or perceived conflicts of interest during recruitment and selection processes in light of the observations made in this report.	Human Resource Management	In Progress	May 21
14	Introduces a requirement that members of a selection panel be required to complete and sign a selection summary report which outlines the candidates who applied for a position, the performance of each candidate during the selection process, the deliberations of the panel in respect of the suitability of each candidate together with the reasons the panel recommended the selection of a particular candidate.	Human Resource Management	In Progress	Feb 21
15	Reinforces the need to complete selection panel interview notes in a consistent manner and that the notes bear the name and signature of the panel member completing the notes.	Human Resource Management	In Progress	Feb 21
16	Considers incorporating a requirement that selection panels include at least one panel member who does not work within the workgroup for which a recruitment is being conducted.	Human Resource Management	In Progress	Feb 21
17	Ensures that any performance management process adopted by the council includes safeguards that ensure all employees are given consistent and timely feedback on their performance and that there is a consistent approach to performance management for all council employees.	Human Resource Management	In Progress	Apr 21
18	Amends its procurement policy and guidelines to prescribe the key responsibilities for procurement decisions and the documents that must be created and retained for each stage of a procurement. The amendments should include an express requirement that all records relating to a procurement must be stored on an established records management system (i.e. not stored on a network drive or in an employee email mailbox).	Procurement	In Progress	May 21
19	Reminds staff of the importance of adhering to prescribed procurement policies and guidelines and that an unauthorised departure from those policies and guidelines will not be tolerated.	Procurement	In Progress	May 21
20	Gives consideration to extending the role of council procurement officers to require that those officers be consulted in respect of council procurements under the current threshold of \$100,000.	Procurement	In Progress	Mar 21
21	Extends the role of finance officers to require that those officers be consulted in respect of	Procurement	In Progress	Mar 21



	council procurements of a value of more than \$100,000.			
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## 2.0

Auditor General Recommendations				
Reference	Recommendation Supported	Project Stream Addressing	Status	Forecasted Implementation Date
4.3.1(a)	Perform a formal and regular analysis of its credit card and accounts payable expenditure to: - identify areas for further improvement in the use of credit cards - to inform its procurement strategy	Procurement	In Progress	May 21
5.3.1(a)	The Council should review its policies and procedures regularly and by its due date.	Policy & Procedure	In Progress	May 21
5.3.1(b)	A policy and the associated procedures/guidelines should be reviewed at the same time.	Policy & Procedure	In Progress	May 21
5.3.2(a)	The Council should consider updating its credit card policy and guidelines for the improvements we identified in this section and the recommendations we made in section 3.3	Policy & Procedure	In Progress	May 21
6.3.1(a)	The CEO's instrument of sub-delegations should provide a complete and accurate formal record of the financial delegations the CEO has sub-delegated.	Procurement	In progress	May 21
6.3.1(b)	The Council should consider, as it decides future risk priorities, having an internal auditor or legal advisor review the delegation process and documents to ensure they are a clear, complete and accurate record of the delegations under the LG Act. We consider better practice would be for sub-delegations to be clearly referenced to positions and not to individual employees.	Procurement	In Progress	May 21
6.3.2(a)	The Council should reinforce to staff the importance of the independent reviewer's responsibility.	Procurement	In progress	May 21
6.3.2(b)	Review a sample of credit card transactions to ensure the independent review is operating effectively. The transactions could either be selected randomly or target high-risk areas based on an analysis of credit card data and for expenditure where the council has implemented new/revised policies.	Procurement	In progress	May 21
6.3.3(a)	The council should update its credit card policy to require the independent review of the Executive's credit card transactions.	Policy & Procedure	In progress	May 21
6.3.3(b)	A suitable senior officer should assess the CEO's credit card transactions against the expenditure principles to ensure the proper use of public money.	Procurement	In progress	May 21
6.3.5(a)	Maintain adequate records to explain its expenses and demonstrate transparency in the decision-making process and the proper use of public money.	Procurement	In progress	Mar 21
7.3.1(a)	The Council should consider updating its travel and hospitality policies and guidelines for the improvements we identified	Policy & Procedure	In progress	May 21

Reference	Auditor General Recommendations Not Supported	Position
6.3.3(c)	The Council's Executive group should review a report from the suitable senior officer of any questionable transactions to mitigate the actual and perceived risks of the misuse of credit cards and public money.	Not supported, council will utilise the independent review process contained in the policy to review questionable transactions
6.3.3(d)	The Council should consider requiring its audit committee to periodically review a report of the CEO's credit card transactions to ensure the expenditure is reasonable and for business purposes.	Recommendation not supported but agreed would report by exception to the audit committee.
6.3.4(a)	The Council should update its policies for: the expenditure principles that staff need to apply and clearly demonstrate at the time expenditure is incurred	Recommendation accepted and will action accordingly
6.3.4(b)	The nature and extent of information needed to adequately justify the business purpose of the expenditure. This may include obtaining approval of sensitive expenditure before it is incurred.	Recommendation not supported
6.3.5(b)	Any approvals to support the business purpose of expenditure that is outside of an approved policy and/or perceived to be unusual or not common practice should be evidenced, either by a signature or in an email, before the expenditure is incurred.	Recommendation not supported
6.3.6(a)	The Council should update its policies for the expenditure principles staff need to apply. This includes clearly demonstrating when expenditure is incurred that it is both necessary and appropriate.	Council considers that this is a general opinion, not a factual finding. Recommendation not supported
7.3.1(b)	In revising its expenditure policies, consider consulting with its community, and other key people or groups, to better understand the public's expectations of acceptable expenditure behaviours (sections 7.3.1 and 9.2.1)	Council will consider the appropriateness of community consultation on a case by case basis in the future
7.3.1(c)	Review its business expense transactions to ensure the new/revised policies and guidelines are implemented and operating effectively.	Already actioned – a process to review business expense transactions already set up
8.3(a)	Review its employee recognition policy and guidelines with specific focus on staff performance and the expenditure principles.	Council considers that this is a general opinion, not a factual finding. This general observation is accepted and will be actioned accordingly.
8.3(b)	The Council should consider how it supports the staff social club in organising social events to minimise ratepayer cost.	Council has considered this recommendation. No action required
9.2.1(a)	Revise its Mayor support and elected member support policy guidelines to remove the provision of special functions.	Council considers that this is a general opinion, however, notes the Auditor General's opinion and will review the Elected Member Support Policy and associated Guidelines

9.2.1(b)	The Council should survey its community to understand the public's expectation of what expenditure of a sensitive nature may or may not be funded by public money, or coordinate with other councils to obtain this information.	No Action Required (Council will continue to consult with the community in line with the community consultation policy)
9.2.1(c)	In future the Council should, in our opinion, better explain the business purpose and business benefit to the Council before incurring sensitive expenditure. The Council should maintain adequate records to support this explanation.	No Action Required Council considers that this is a general opinion, however, notes the Auditor General's opinion and will review the Elected Member Support Policy and associated Guidelines
9.2.1(d)	Have its audit committee regularly scrutinise sensitive expenditure that results in benefits to the elected members to determine whether it is a proper use of public money	No Action Required (The Council has a legislated gifts and benefits register, which is publicly available and has an Elected Members Support policy, which outlines what benefits the elected members get in support of their role.)

## 3.0

Norman Waterhouse Recommendations			
No.	Recommendation	Project Stream Addressing	Status
1	The recommendations are not detailed in this report in line with Council resolution 4047 on 26 May 2020  Pursuant to Section 91(7) of the Local Government Act 1999, the Council orders that the following document(s) (or part) shall be kept confidential, being document(s) (or part) relating to a matter dealt with by the Council on a confidential basis under Sections 90(2) and 90(3))h) of the Act:	Human Resources	In progress
2	- Attachment(s), specifically, the legal advice provided by Norman Waterhouse Lawyers set out in the report of Norman Waterhouse Lawyers and provided to the Council at its meeting of 26 May 2020; for Item 17.2  on the grounds that the document(s) (or part) relates to:	Policy & Procedure	In progress
3	• legal advice  Specifically, legal advice provided by Norman Waterhouse Lawyers.  This order shall operate until further order and will be reviewed at least annually in accordance with the Local Government Act 1999.	Human Resources	In Progress



## 5.4 PROCUREMENT AND DATA MINING INTERNAL AUDIT REPORT

**Responsible Executive Manager :** Mr Sam Green

**Report Author :** Mr Ninad Sinkar

**Delegated Authority :** Matters for Information.

**Attachments :** 1 [↓](#). Procurement and Data Mining Audit report

### Purpose

Provide the Procurement and Data Mining Internal Audit report.

### STAFF RECOMMENDATION

The Committee receive and note the Procurement and Data Mining Internal Audit report.

### Relevance to Strategic Plan

The implementation of the audit recommendations will positively impact service delivery to our community through optimum utilisation of resources, greater accountability, transparency and continuous improvement of our processes.

### Relevance to Public Consultation Policy

There is no requirement under the Council's Public Consultation Policy to consult on this issue.

### Background

As a part of the approved Internal Audit plan, a Procurement and Data Mining Internal Audit was performed. The Procurement Audit was performed by the in-house Internal Auditor and the Data Mining Audit was performed by external consultants from Galpins.

### Executive Summary

The overall objective of the Procurement internal audit was to consider the design and operation of the Council's procurement process and identify opportunities to further enhance the procurement process, approach and the effectiveness with which it manages risks across the organisation. The audit was supported by the Data Mining audit which helped in identifying indicators of potential fraudulent activity, misconduct, errors or control deficiencies within the accounts payable and payroll process.

Internal Audit notes the following strengths in the Council's procurement processes:

- Council has developed policies and protocols supporting procurement activities
- The Council has controls embedded in the TechOne system for authorisation of purchase orders, contracts and invoices
- The Council has a reasonable oversight on high value procurement
- The Council has developed a tender evaluation process

- Council has developed a contracts register in TechOne
- Contract expiry is monitored by the procurement team

## Summary of Audit Observations

A summary of key audit observations and recommendations identified during the course of this internal audit is outlined below.

- **Centre-led purchasing** - Internal audit observed that currently the procurement activity is decentralised across the Council. Internal Audit notes that decentralized procurement does not allow the Council to leverage their total spend or align its objectives with the strategic plan of the Council. Internal audit recommends that the management implement the centre-led purchasing function, which will have a comprehensive structure and significant involvement of the procurement team.
- **Procurement reporting strategy**- Internal audit noted that currently there is limited reporting to the Executive on procurement activities. A key function of the centre led model would be to enhance the quality of procurement reporting to demonstrate how its procurement activities deliver value for money, contribute to the realisation of its broader goals and objectives, and provide a high level snapshot of the effectiveness of its procurement strategy.
- **Exemption from procurement process**- Internal Audit noted that the entire approval process for exemptions is paper based. The business case, justification and assessment are conducted on word documents, approvals are provided by using manual signatures and documents are scanned into TechOne as evidence. Internal audit recommends that management explore the possibility of digitising the procurement exemption process.
- **Purchase order splitting**- The splitting of purchase orders could lead to a financial loss due to inappropriate procurement, inadequate monitoring of high value procurement, unauthorised approval and reputational damage to the Council. Data mining confirmed 4 cases of purchase order or invoice splitting, which appear to be attempts to bypass delegations. Internal Audit recommends that ongoing monitoring of potential split purchase orders is implemented, and regular (e.g. monthly/quarterly) reporting of results provided by the Procurement team.
- **Hierarchy based approvals**- Internal audit noted that currently the approval process for procurement is based on the delegation limits provided to the specific position. Whilst this acts as a strong internal control built within the TechOne system, there is a possibility of variations to, purchase orders being entered into the system by the team members and approved by the delegate, but without going back to the original approver. Internal audit recommends that the Council investigate a hierarchy based approvals process for procurement, as a part of the TechOne system.

## Current Situation

The detailed findings and recommendations have been included in the attached audit report. Each item has been delegated to the relevant area for action and an estimated completion date provided. Internal Audit is satisfied with the responses and implementation timelines provided by the management.

## Future Actions

Going forward, all the action items will be tracked by the Internal Auditor. The intention is to ensure all actions are undertaken by their due date or altered approved timelines.

## Procurement and Data Mining Internal Audit Report

### Submitted by

Mr Ninad Sinkar  
Internal Auditor  
**City of Playford**

Mr Tim Muhlhausler  
Partner  
**Galpins Accountants**

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December 2020

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Distribution	
<b>For action</b>	<b>For information</b>
Sam Green - CEO	General Managers
	Corporate Governance Committee

## Executive Summary

### Objective

The procurement function within the Council ensures the acquisition of goods and services in a manner that enhances access, competition and fairness, and results in the best value and/or an optimal balance of overall benefits to the Council.

The overall objective of the internal audit is to consider the design and operation of the Council's procurement process and identify opportunities to further enhance the procurement process, approach and the effectiveness with which it manages risks across the organisation.

### Scope

The scope of this audit was to evaluate the effectiveness of the internal control framework over the procurement process. Specifically, the audit considered whether:

- The Council has policies, systems, and controls in place to enable transparent, efficient and effective procurement activities;
- Procurement policies and procedures are communicated to, and understood by key stakeholders;
- Effective monitoring and reporting mechanisms are in place to provide management with accurate, relevant, and reliable information for decision-making regarding the delivery of procurement services;
- Mechanisms and controls are in place to effectively manage risks related to procurement;
- A detailed workforce plan exists to help ensure that the procurement department has the right resources with the right skill sets to support the Council's procurement requirements, roles and responsibilities of the procurement function; and
- Expected procurement results are clearly defined and monitored.

Further to the above, the audit has been supplemented by a data mining exercise, covering the period 01/04/2019 – 30/09/2020.

The overall objective of the data mining was to identify indicators of potential fraudulent activity, misconduct, errors or control deficiencies within the accounts payable and payroll process. Internal Audit utilised data analytic techniques to undertake this review to identify suspicious master data and to highlight unusual activity.

Data mining was undertaken in 2 phases. Phase 1 involved performing data analysis over the raw accounts payable and supplier master file data to identify transactions for further investigation. Phase 2 involved investigation of selected transactions including further scrutiny of the data, collection of supporting evidence and discussions with staff to substantiate the sampled transactions. The audit aimed to determine the root cause of identified issues, and identify pragmatic recommendations for improvement to systems, controls and processes to reduce risk.

Further detail regarding the data mining methodology, results and transactions selected for further testing are included in Appendix 1.



## Report findings

The findings and recommendations raised were discussed with the Manager – Procurement and Accounts Payable and the procurement team. They have accepted the findings and have agreed action plans to address the recommendations. This report also includes any findings and recommendations where Management has implemented the action plans to date. The management action plans will be included in the tracking of internal audit recommendations maintained by Internal Audit.

Classification of Internal audit findings.

Foundation and Value Adding audit findings
8
Future improvement opportunities (FIO)
5

Please refer to appendix 2 for description of the classification categories.

## Key observations and recommendations

Internal Audit reviewed the City of Playford's practices regarding procurement by using the following approach

- Interviews and process walkthroughs with key personnel,
- Examination and review of documentation related to procurement policies and procedures,
- Conducting of tests of operating effectiveness for key procurement controls based on a sample of procurement transactions.

The interviews and test procedures were based on the current procurement policies and procedures/practices.

The Framework consists of key principles that underpin all procurement activities for all Council representatives.

These include:

- Value for money
- Financial responsibility
- Transparent and fair competition
- Ethical behaviour and probity
- Risk management
- Compliance with statutory obligations

### What worked well

Internal Audit notes the following strengths in the Council's procurement processes

- Council has developed policies and protocols supporting procurement activities
- The Council has controls embedded in the TechOne system for authorisation of purchase orders, contracts and invoices

- The Council has a reasonable oversight on high value procurement
- The Council has developed a tender evaluation process
- Council has developed a contracts register in TechOne
- Contract expiry is monitored by the procurement team

#### **Overall Observations and recommendations**

The key findings and recommendations identified during the course of this internal audit are outlined in the summary below. A full list of the findings identified and the recommendations made is included in this report.

**Centre-led purchasing** - Internal audit observed that currently the procurement activity is decentralised across the Council. Internal Audit notes that decentralized procurement does not allow the Council to leverage their total spend or align its objectives with the strategic plan of the Council. There is limited coordination and knowledge sharing between departments, at times leading to the same supplier providing inconsistent quotes to two different departments for a similar job. Internal audit recommends that the management implement the centre-led purchasing function, which will have a comprehensive structure and significant involvement of the procurement team

**Procurement reporting strategy**- Internal audit noted that currently there is limited reporting to the Executive on procurement activities. A key function of the centre led model would be to enhance the quality of procurement reporting to demonstrate how its procurement activities deliver value for money, contribute to the realization of its broader goals and objectives, and provide a high level snapshot of the effectiveness of its procurement strategy. A comprehensive and formalised procurement reporting strategy will provide management oversight over the procurement activity undertaken by the Council.

**Exemption from procurement process**- Internal Audit noted that the entire approval process for exemptions is paper based. The business case, justification and assessment are conducted on word documents, approvals are provided by using manual signatures and documents are scanned into TechOne as evidence. Internal audit recommends that management explore the possibility of digitising the procurement exemption process.

**Purchase order splitting**- The splitting of purchase orders could lead to a financial loss due to inappropriate procurement, inadequate monitoring of high value procurement, unauthorised approval and reputational damage to the Council. Data mining confirmed 4 cases of purchase order or invoice splitting, which appear to be attempts to bypass delegations. Internal Audit recommends that ongoing monitoring of potential split purchase orders is implemented, and regular (e.g. monthly/quarterly) reporting of results provided by the Procurement team to the CEO and General Managers, highlighting identified policy breaches and agree on a time based action plan for addressing the breaches.

**Hierarchy based approvals**- Internal audit noted that currently the approval process for procurement is based on the delegation limits provided to the specific position. Whilst this acts as a strong internal control built within the TechOne system, there is a possibility of variations to, purchase orders being entered into the system by the team members and approved by the delegate, but without going back to the original approver. Internal audit recommends that the Council investigate a hierarchy based approvals process for procurement, as a part of the TechOne system.

## Summary of findings

Ref #	Description	Issue Owner	Target Date
#1	Implement a centre led purchasing function	Barry Porter	
#2	Establish a procurement steering committee	Sam Green	
#3	Procurement policy to be updated to include an information session to prospective tenderers	Barry Porter	
#4	Need to develop and implement a procurement reporting framework	Barry Porter	
#5	Strengthen the procurement exemptions process by exploring options for digitising exemptions through TechOne and implementing exemption reporting	Barry Porter	
#6	Review the open purchase order report and investigate long outstanding purchase orders	Barry Porter	
#7	Monitor instances of purchase order splitting and report on non-compliances on a monthly basis	Barry Porter	
#8	Formalise periodic review of the vendor master file	Barry Porter	
#9	Detailed workforce plan to be developed for procurement function	Barry Porter	
#10	Opportunity to develop and establish procurement KPIs	Sam Green	
#11	Purchasing training and refresher training to be undertaken by every staff member involved in purchasing	Barry Porter	
#12	Opportunity to enhance the risk management process for procurement activities	Barry Porter	
#13	Explore the possibility of hierarchy based approvals in TechOne for all purchases	Barry Porter	

## Internal Audit findings to be actioned

### #1 Implement a centre led purchasing function

Foundation and Value Adding findings

#### Finding(s)

Internal audit observed that currently the procurement activity is decentralised across the Council. Every department/workgroup is able to procure goods and services below \$100k and is responsible for its own purchases. The current structure empowers individual departments and allows them to maintain control over their procurement processes and decisions. It also improves their overall satisfaction with procurement and accelerates the decision making and issue resolution process.

However, Internal Audit notes that decentralized procurement does not allow the Council to leverage their total spend or align its objectives with the strategic plan of the Council. There is limited coordination and knowledge sharing between departments, at times leading to the same supplier providing inconsistent quotes to two different departments for a similar job. A decentralized purchasing model also leads to compliance issues such as inconsistencies in creating purchase requisitions, open purchase orders, inflation of outstanding commitments, GST allocations, purchase order compliance, good received not invoiced.

Internal Audit notes the following benefits and limitations associated with the centre-led model:

#### Benefits:

- Avoids duplication or redundancy of efforts, which means lower costs and standardized processes
- Best practices, policies and processes are centralised and redistributed throughout the organisation
- Allows for more comprehensive control and optimization of orders
- Reduces the total number of staff necessary and facilitates training, which may be seen in lower costs
- Volume purchasing is enabled, which means greater discounts and better terms
- Provides a known, centralized contact for suppliers, which can lead to cost and time savings
- May enable procurement staff to develop better relationships with suppliers, which can lead to greater collaboration and cost-saving suggestions

#### Limitations:

- Can become too big or too complex to be run efficiently
- Managers may have less autonomy, which can cause frustration
- It may lead to a longer and more intensive time consuming purchasing process
- May result in extended planning, delivery and turnaround time for critical purchases
- May lead to under-investment, and therefore inefficiency

Please refer to Appendix 3 for a comparison of centre led purchasing model vis-à-vis decentralised model.

#### Recommendation(s)

Internal audit recommends that the management implement the centre-led purchasing function, which will have a comprehensive structure and significant involvement of the procurement team. The centre-led purchasing function would -

- 1) align with the strategic goals of the Council,
- 2) consider the sourcing profiles and critical requirements for all categories of spend,
- 3) understand each business unit and stakeholder requirements,
- 4) ensure compliance with procurement policies and processes,
- 5) provide visibility to the entire Council and leverage best practice sharing across the departments, and
- 6) perform data analytics to create various reports and roadmaps to maximize value for money.

**Agreed Management action(s):** Management agrees with the recommendation and intends to make business changes to implement.

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**Responsibility** Barry Porter

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**Target date**

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**# 2 Establish a procurement steering committee**

Foundation and Value Adding findings

**Finding(s) and impact**

Internal Audit notes that the overall procurement process of the Council would benefit from establishing a Procurement Steering Committee, which would provide deep critical thinking, analysis and broader challenge to the overall procurement activity undertaken by the Council.

The steering committee could assist the Executive in the effective discharge of its governance and oversight responsibilities relating to the delivery of major procurement decisions. The Committee could provide strategic direction and oversight of major procurement undertaken by the Council to ensure those investments are delivered in an efficient and cost effective manner while meeting the strategic plans of the Council. The Committee could also be responsible for high level oversight and monitoring of the procurement processes and procedures operating within the Council to ensure compliance.

**Recommendation(s)**

Internal audit recommends that management establish a Steering Committee which will review, oversee and provide recommendations to the Executive and CEO on the following Procurement matters:

- the application of Procurement Policy;
- tender methodologies and probity procedures to ensure the ethical procurement of goods and services in accordance with Procurement Policy/ procedures
- development of strategic procurement objectives and implementation through a procurement strategy to ensure that major investment decisions are formulated strategically to enable prudent and efficient outcomes through market engagement;
- development of strategic business initiatives to ensure procurement policies, procedures and frameworks are consistent with the strategic planning and performance objectives of City of Playford;
- evaluating and monitoring procurement performance to ensure alignment with City of Playford's strategic objectives;
- adequacy and effectiveness of internal controls and risk management relevant to procurement activities;
- procurement performance assessments and processes to identify opportunities for future improvements

**Agreed Management action(s):** Whilst Management understands and agrees with the recommendation, Management does not agree with the establishment of a Procurement Steering Committee. Instead, and to deliver on the intent of the recommendation, Management proposes to use the Executive to undertake strategic oversight of procurement.

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**Responsibility** Sam Green

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**Target date**

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**# 3 Procurement policy to be updated to include an information session to prospective tenderers****Foundation and Value Adding findings****Finding(s) and impact**

As per the current process, information sessions and site meetings are conducted for major contracts/significant projects for providing detailed information to the prospective suppliers/service providers. Internal Audit notes that the information sessions are conducted on merits of the tender and discussed at the scoping stage by the project team.

However, the information sessions are not held for smaller tenders or projects. In most instances, the project team sends out the request for proposal/request for quote (either in the open market or through select tender process). The prospective suppliers have the option of asking questions to the key contact listed on the RFQ. Internal Audit notes that this process is not always effective. It results in limited information being available to the prospective suppliers/service providers. In certain instances, the scope of work outlined in the RFQ/RFP is not adequately clear, resulting in inaccurate quotes being received.

**Recommendation(s)**

Internal audit recommends that the procurement policy be updated to include an information session, on a case to case basis, for prospective suppliers/service providers. The necessity of such a session can be decided by the procurement team at the planning stages and it can be offered to all the prospective tenderers (as a part of the RFQ/RFP) or if the session is requested by the prospective tenderers.

In addition to the above, the Council may consider training and skills development sessions for nominated employees who are involved in writing scope documents and RFQs for various projects/procurements.

**Agreed Management action(s):** Management agrees to the implementation of information sessions where the procurement process warrants it and there is interest from the market in attending an information session.

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**Responsibility:** Barry Porter

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**Target date**

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#### #4 Need to develop and implement a procurement reporting framework

Foundation and Value Adding findings

##### Finding(s) and impact

Procurement reporting allows an organization to demonstrate how its procurement activities deliver value for money, contribute to the realization of its broader goals and objectives, and provide a high level snapshot of the effectiveness of its procurement strategy.

Internal audit noted that currently there is limited reporting to the Executive on procurement activities. The following table provides a quick snapshot of the current reports:

#	Report name	Frequency
1	Purchase order compliance	Monthly
2	Spend analysis	Annual
3	Receipts pending invoicing analysis	Monthly/Quarterly
4	Procurement outcomes for CEO KPI report	Quarterly

Opportunities to further enhanced reporting activity include reporting on:

- policy non compliances (*see findings #7 and #13*);
- open purchase orders (*see finding #6*);
- exemptions from procurement process/direct sourcing (*see finding #5*);
- potential purchase order/invoice splitting report (*see finding #7*);
- purchase order amendments report (*see finding #13*).

##### Recommendation(s)

Internal audit recommends that the procurement team consider and formalise a procurement reporting framework, which will provide management oversight over the procurement activity undertaken by the Council. The proposed procurement steering committee be involved in the development and management of this reporting framework.

**Agreed Management action(s):** Management agrees with the recommendation and intends to make business changes to implement.

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**Responsibility:** Barry Porter

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**Target date**

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**#5 Strengthen the procurement exemptions process by exploring options for digitising exemptions and implementing exemption reporting****Foundation and Value Adding findings****Finding(s) and impact**

Council's procurement policy allows for exemption from the process in certain circumstances, and provides some guidance on situations when exemptions may be appropriate and required approval processes.

In order to assess compliance with the policy, Internal Audit reviewed the exemptions granted for a sample of procurements during the 2020 financial year and noted the following:

1. Same contractor engaged by a team for 3 stages of work. However, there could have been a better way of going to market at the time of planning the entire engagement and undertaking appropriate market testing.
2. In most instances, the justification is based on time pressure. Internal Audit notes that such situations can be avoided by appropriate project planning and engaging with the market at an early stage.
3. One instance where a select tender process could have been undertaken, but the project team opted to go for procurement exemption.
4. One instance where a purchase order was raised prior to the exemption being officially approved by the delegate.
5. In one instance the Procurement Manager was consulted after signing off the contract with the supplier.
6. In some instances, the names of the approvers are not written on the exemption forms. This made it difficult to verify whether exemptions have been approved in line with the delegations of the Council.

Decisions related to approval of exemptions necessarily require a degree of professional judgement. As such, ensuring there is transparency over exemptions granted provides greater credibility and accountability to the process. There are currently no formal reporting requirements for exemptions.

In addition, Internal Audit noted that the entire approval process for exemptions is paper based. The business case, justification and assessment are conducted on word documents, approvals are provided by using manual signatures and documents are scanned into TechOne as evidence.

Internal Audit notes the following issues with this process:

1. Inability to verify if the appropriate signatories are present, as names of the authorisers are not mentioned in some instances
2. Instances where procurement exemption has been approved due to time pressures and urgency
3. Instances where approval from procurement team have been sought after the process is complete
4. One instance where exemption was sought after receiving the invoice (exemption approved and PO generated after receiving the invoice)

**Recommendation(s)**

Internal audit recommends that management digitise the exemption process.

The criteria for exemption be reviewed and only genuine cases for exemption be considered.

Further, Internal audit recommends that the CEO should receive a quarterly report regarding exemptions granted, any questionable transactions should be reviewed and feedback provided to the Senior Manager/Manager responsible for the procurement.

**Agreed Management action(s):** Management will explore the options and consider the cost/benefit of system changes prior to agreeing to implement the recommendation.

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**Responsibility** Barry Porter

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**Target date**

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#### #6 Review the open purchase order report and investigate long outstanding purchase orders

Foundation and Value Adding findings

#### Finding(s) and impact

Internal Audit noted that as on 21 October 2020, there were 576 open purchase orders in the TechOne system. The details of the same are provided in the table below:

Year	Value of open POs	Total open POs
2017	\$41,972.74	4
2018	\$105,205.33	12
2019	\$1,914,827.68	43
2020	\$11,768,925.09	517
<b>Grand Total</b>	<b>\$13,830,930.84</b>	<b>576</b>

Open-purchase orders are problematic because they prevent the system from identifying overpayments or flagging duplicate invoices for review. There is a possibility that the vendors/suppliers may issue multiple invoices against the purchase orders and these may go unnoticed, leading to incorrect payments. It also inflates the financial commitment of the Council and adversely affects the ability to generate an accurate cash flow.

#### Data Mining results

A sample of open purchases orders that have been open for significant periods of time, with long lags between invoices and raising of the purchase order, were identified through data mining. A sample of these were tested to ensure invoices legitimately related to the purchase order. No exceptions were found.

Council overpaid a tyre supplier by approximately \$4,000 as a result of both paying the invoices and paying again based on the related credit notes for these invoices. The format of the supplier's credit notes is such that they are almost identical to the supplier's invoice format, including credit amounts showing as positive rather than negative figures. This overpayment was discovered by the supplier, who alerted Council and provided a refund. This appears to be an isolated case of human error, and not indicative of broader errors, however it illustrates that these errors can occur and are unlikely to be detected by Council

#### Recommendation(s)

Internal audit recommends that in order to avoid open purchase orders-

- Discourage the use of blanket purchase orders
- Set a standard for detailed and specific purchase orders for all goods and services
- Perform a monthly review for duplicates or overpayments
- Review the open purchase orders on a quarterly basis and provide a department-wide detailed report to the Executive for further action.

**Agreed Management action(s):** Management agrees with the recommendation and intends to make business changes to implement.

**Responsibility** Barry Porter

**Target date**

## # 7 Monitor instances of purchase order splitting and report on non-compliances on a monthly basis

Foundation and Value Adding findings

### Finding(s) and impact

The Council's procurement policy states that "The act of Purchase Order value splitting or the raising of Purchase Orders to a lesser value and amending to a higher value at a later date, for reason of circumventing the above policy thresholds or system delegation limitations will be seen as a direct breach of Councils Procurement Policy and/or Code of Conduct". (Procurement Policy 25/07/2017, sec 5.2.11 Delegation and policy thresholds).

Internal Audit noted several instances of the breaking up of high-dollar value purchases into smaller amounts to circumvent the internal controls and processes for procurement (e.g. splitting purchases into smaller amounts to bypass the 3 written quotations requirement).

The splitting of purchase orders could lead to a financial loss due to inappropriate procurement, inadequate monitoring of high value procurement, unauthorised approval and reputational damage to the Council.

### Data Mining results

Data mining confirmed 4 cases of purchase order or invoice splitting, which appear to be attempts to bypass delegations, or which relate to expired contracts. Details of exceptions have been provided to Management, detailing purchase order numbers, supplier names, amounts and users involved in the transactions. Exceptions identified include:

- A single \$17,000 quote for painting a building, split across multiple purchase orders (raised in quick succession) and invoices for different sections of the same building.
- \$15,800 of construction works at the same site, split across 2 purchase orders (raised in quick succession) and invoices (same date, consecutive invoice numbers).
- \$24,446 of security monitoring services, split across 5 Purchase Orders raised in quick succession. Services related to different categories of sites (e.g. community sites, corporate sites, sporting clubs), however essentially the same service and no contract in place. Approver had insufficient delegation to approve total consolidated amount.
- Two non-PO invoices totalling \$1,282 for drink purchases (including alcohol) – same date, consecutive invoice numbers.

### Recommendation(s)

Internal audit recommends that the procurement policy guidelines be enforced on a stringent basis.

Ongoing monitoring of potential split purchase orders is implemented, and regular (e.g. monthly/quarterly) reporting of results provided by the Procurement team to the CEO and General Managers, highlighting identified policy breaches and agree on a time based action plan for addressing the breaches.

**Agreed Management action(s):** Management agrees with the recommendation and intends to make business changes to implement.

**Responsibility** Barry Porter

**Target date**

**# 8 Formalise periodic review of the vendor master file**

Foundation and Value Adding findings

**Finding(s) and impact**

Internal audit noted that there is no formal process of reviewing the vendor master data on a periodic basis. Once a vendor details are entered in the system, they are often kept active in the system. There is no process to confirm:

- If the vendor is currently engaged by City of Playford; and
- If the vendor is inactive, their details need to be deactivated from the system.

**Data Mining results**

Data mining identified the following potential integrity issues within the vendor Masterfile. Details of the specific vendors impacted have been provided to Management to help inform future reviews of the vendor master file.

Description	No. of Exceptions
ABN is blank/empty	61
ABN is not numeric	2
ABN is a repeated numeric	2
Address is "PO Box"	1422
Address has an invalid Postcode	45
Vendor does not have an address	33
Bank account is blank/empty	26
Bank account is not numeric	3
Bank account is repeated value	1
Bank account is abnormal length	9
BSB not found in BSB listing	29
Vendor does not have a bank account	185
Seldom used vendor in period (< 3 invoices)	588
Active Vendors with "DO NOT USE" in name	2

**Recommendation(s)**

Internal audit recommends that a formal, periodic review process for the vendor master file is introduced to ensure pertinence of data and to identify inactive and/or redundant vendors (e.g. have not been used within the last 18 months) and deactivate them in TechOne.

**Agreed Management action(s):** Management agrees with the recommendation and intends to make business changes to implement.

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**Responsibility** Barry Porter

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**Target date**

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**# 9 Detailed workforce plan to be developed for procurement function****Future Improvement  
Opportunities****Finding(s) and impact**

Workforce planning is a critical element to ensure that an organization has the workforce to meet the current challenges and plan for future opportunities.

Internal Audit notes that the current Organisational Development team has detailed structures, roles and responsibilities defined for the procurement function. However, there is a need to develop a detailed workforce plan which would help in identifying the current capabilities, key person risks and future responsibilities for the procurement function. The developed workforce plan needs to be aligned with the long term strategy of the council.

**Recommendation(s)**

Internal audit recommends the management develop a workforce plan which may include (but not limited to) the following:

- an analysis of critical positions;
- a review of present workforce competencies;
- an identification of competencies needed in the future;
- a comparison of the present workforce to future needs to identify competency gaps and surpluses; and
- the preparation of plans for building the workforce needed in the future.

**Agreed Management action(s):** Management agrees with the recommendation and intends to make business changes to implement.

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**Responsibility** Barry Porter

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**Target date**

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#### # 10 Opportunity to develop and establish KPIs for procurement activities

Future Improvement Opportunities

##### Observations and Recommendations

Procurement KPIs are a type of performance measurement tool that is used to evaluate and monitor the efficiency of an organization's procurement management. These KPIs help an organization optimize and regulate spending, quality, time, and costs.

Internal Audit notes that Council has recently initiated a process of reporting on certain procurement KPIs in the CEO update report (e.g. procurement spend analysis, use of panel contracts).

Internal Audit considers that there is value in reporting on these KPIs and they can be further enhanced by considering/ adding the following procurement specific KPIs:

KPI	Metric	Success Indicator
Procurement model (selection based on outcome and not convenience)	Each procurement based on appropriate method (i.e. consistent with procurement principles per s5.1 of the procurement policy)	100% of spot-checked procurement activities adopt procurement method consistent with policy principles
Cost reduction achieved	Reduction in number of invoices, payments etc.	Year on year comparison of number of invoices
Trained staff able to understand the procurement framework	Staff involved in procurement process on behalf of Council have relevant training, all training recorded in staff training records.	100% of staff with involvement in procurement receive required training per Council policy.

**Agreed Management action(s):** Management supports the intent of monitoring the performance of procurement across the organisation however is unsure of the approach around KPI's which would not operate within existing performance management frameworks. No action at this point. To be considered in line with the development of any performance management systems.

**Responsibility** Sam Green

**Target date**

**# 11 Purchasing training and refresher training to be undertaken by every staff member involved in purchasing**

Future Improvement  
Opportunities

**Finding(s) and impact**

Internal Audit notes that currently there is no policy for purchasing training to be undertaken by staff. The procurement function is decentralised and Internal Audit noted that 35 staff members have received purchasing training during the year 2019-2020. The training is conducted by a procurement team member and is provided to most new recruits.

There is no requirement in the procurement policy regarding mandatory training and refresher courses for every user accessing the procurement module in TechOne.

**Recommendation(s)**

Internal Audit acknowledges that there may be issues in training all 450+ employees who have access to procurement modules. Online training modules, tailored to varying levels of staff requirements (from simple, low risk to complex procurement) can provide an efficient solution to maximise the number of staff able to be trained.

Internal audit recommends that management implement the centre led purchasing model, arrive at a valid business decision around how many staff with requisition access and limit access only to adequately trained staff.

In addition to this, the relevant staff members (nominated by the Managers/Senior Managers) should be provided refresher training on annual basis.

**Agreed Management action(s):** Management agrees with the recommendation and intends to make business changes to implement.

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**Responsibility** Barry Porter

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**Target date**

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## # 12 Opportunity to enhance the risk management process for procurement activities

Future Improvement  
Opportunities

### Finding(s) and impact

Risk management is an essential part of a procurement process. Systematic identification, assessment and treatment of risk contributes significantly to the success of procurement.

There are keys steps to managing procurement risk effectively:

- Early and systematic identification and assessment of risks and development of plans for handling them
- Appropriate allocation of responsibility to the risk owner best placed to manage each risk
- Adoption of an overall risk management approach commensurate with the importance of the purchase and the risks involved.
- Formal risk management is recommended for major procurements.

Internal Audit notes that currently the risk management process for procurement is at a very basic level. The Council's procurement policy recommends a procurement approach that considers the risks associated with the proposed procurement. There is limited guidance to the staff on how this is to be achieved.

It is acknowledged that the project managers/departments responsible for procurement undertake a basic level of risk assessment which forms a part of the procurement process and is documented appropriately. However, there is no further action or responsibility allocated for identified risks and action plans. Poorly managed procurement risks may have wide-ranging adverse implications for the achievement of procurement/project objectives.

### Recommendation(s)

Internal audit recommends that the procurement risk management process be developed and enhanced in-line with the Strategic Risk Management framework, which is currently being implemented across the Council.

It is recommended that the management initiate and prioritise the procurement risk management process within the ERM framework implementation.

**Agreed Management action(s):** Management agrees with the recommendation and intends to make business changes to implement.

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**Responsibility** Barry Porter

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**Target date**

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#13 Explore the possibility of hierarchy based approvals in TechOne for all purchases

Future Improvement Opportunities

Finding(s) and impact

Internal audit noted that currently the approval process for procurement is based on the delegation limits provided to the specific position. Whilst this acts as a strong internal control built within the TechOne system, there is a possibility of variations to, purchase orders being entered into the system by the team members and approved by the delegate, but without going back to the original approver. Additionally, the delegation required to approve purchase order amendment is determined by the remaining unspent balance of the purchase order plus amendment value, and *not* against the total value of the order (for example, a person with a \$20,000 delegation could approve a \$15,000 amendment against a \$500,000 purchase order with \$5,000 unspent balance remaining). Internal Audit notes that these system weaknesses can potentially be exploited to bypass internal controls and the approval process.

Recommendation(s)

Internal audit recommends that the management investigate a hierarchy based approvals process for procurement, as a part of the TechOne system.

Alternatively, if this proves impractical, exception reporting should be introduced to monitor potentially inappropriate approvals, such as variations approved by persons other than the original approver with delegations lower than that required for the original order plus variations.

**Agreed Management action(s):** Management agrees with the recommendation and intends to make business changes to implement.

Responsibility	Barry Porter
Target date	

## Appendix 1 – Data Mining Summary

### Summary of Data analysed

Object	Number of Entries	Number of Lines	Total Amount	Earliest Date	Latest Date
Vendors	4,563	4,563			
Employees	524	527			
Payslips	18,122	112,584	348,904,627	10/04/2019	23/09/2020
Purchase Orders	7,714	18,034	52,544,883	1/04/2019	30/09/2020
Invoices	24,650	57,204	97,706,727	1/04/2019	30/09/2020
Chart of Accounts	4,283	7,255			
Delegations of Authority	470	13,590		1/04/2019	30/09/2020
Users	753	755			

### Data Analysis Overview

Just over 90 separate tests were run across invoice, purchase order and vendor data to identify potential exceptions / 'red flags' which, considered collectively with multiple exceptions against individual transactions, increase the risk profile of the transaction. The following summarises the key tests performed:

#### Vendor, Employee and Payroll Master Data Analysis:

*Master Data validity:* Identify Master records that have anomalous, missing or inconsistent key data that may indicate an invalid or non-bona fide Vendor.

*Master Data Changes:* Identify unusual changes to Master data by users that relate to payments, such as short-term bank account changes.

*Vendor to Employee Matching:* Identify Vendor Master records that can be matched to an Employee Master record, for example a Vendor with the same bank account details as an Employee.

#### Purchase Order, Invoice and Payment Transaction Analysis:

*Transaction validity:* Identify transactions that have unusual characteristics, such as an invalid Vendor or abnormal amount.

*Transaction processing:* Identify transactions that were created or modified at an unusual time, date or by an unauthorised User.

*Duplicate invoices:* Identify potential occurrences of duplicate invoice transactions.

*Purchase Order / Non-Purchase Order invoice limits:* Identify Purchase Orders whose Invoices exceed the Purchase Order amount, or a series of Purchase Orders / invoices which show evidence of potential Purchase Order / Invoice splitting to bypass limits.

*Purchase Order modifications / variations:* Identify instances of modifications made to purchase orders

*Transaction approvals:* Identify transactions that do not comply with Segregation of Duties protocols or are beyond the authorising employee's Delegation of Authority limits (including potential split transactions).

**Number of Exceptions - Invoice Tests**

Test ID	Object	Description	No. of Exceptions
INV001_DUP001	Invoice -> Invoice	Potential duplicate Invoices	668
INV002_REC001	Invoice -> Invoice	Small/repeated payments	346
INV003_SOD001	Invoice	Same last updated user vendor -> PO -> Invoice/Payment	0
INV003_SOD003	Invoice Line	Employee invoice created/modified by self	0
INV004_USR001	Invoice	Invoice date on weekend/public holiday	2287
INV004_USR002	Invoice Line	Invoice updated outside 'normal' work hours	0
INV004_USR003	Invoice	Invoice date outside 'normal' work hours	0
INV004_USR004	Invoice	Invoice created by user on leave	34
INV004_USR005	Invoice	Invoice created by terminated user	0
INV004_USR006	Invoice Line	Invoice modified by user on leave	0
INV004_USR007	Invoice Line	Invoice modified by terminated user	0
INV005_VEN001	Invoice Line	Invoice Vendor ID not found in Vendor Master File	1
INV005_VEN002	Invoice Line	Invoice has been paid to multiple vendors	16
INV005_VEN003	Invoice Line	Invoice GST category inconsistent with Vendor GST category	0
INV006_VAL001	Invoice Line	Rounded net amount and gross amount	2793
INV006_VAL002	Invoice Line	Payment net amount below threshold	2938
INV006_VAL003	Invoice Line	Invoice GST amount inconsistent with GST category	20572
INV007_DSC001	Invoice Line	Invoice has blank/empty description	1
INV007_DSC002	Invoice Line	Keyword found in invoice detail description	41
INV008_VAR001	Invoice	Unusually high value invoices for a vendor	600
INV008_VAR002	Invoice	Unusually low value invoices for a vendor	31
INV009_DEL001	Invoice	PO Net Amount above approver delegation	1123
INV009_DEL002	Invoice -> Invoice	Split Invoices	41

**Number of Exceptions - Purchase Order Tests**

Test ID	Object	Description	No. of Exceptions
PO001_VEN001	Purchase Order	PO Vendor ID not found in Vendor Master File	0
PO001_VEN002	Purchase Order	Vendor type not expected against a PO	0
PO001_VEN003	Purchase Order Line	More than one Vendor on PO	0
PO002_VAL001	Purchase Order	Rounded net amount and gross amount	196
PO002_VAL001	Purchase Order	Rounded net amount and gross amount	196
PO002_VAL002	Purchase Order	Low value PO	1031
PO002_VAL002	Purchase Order	Low value PO	1031
PO003_INV001	Purchase Order	PO amount exceeds total invoiced against it	1226
PO003_INV001	Purchase Order	PO amount exceeds total invoiced against it	1226
PO003_INV002	Purchase Order	PO raised after the related invoice(s)	1691
PO003_INV002	Purchase Order	PO raised after the related invoice(s)	1691
PO003_INV003	Purchase Order	Unusual time gap between invoices against a PO	11
PO003_INV003	Purchase Order	Unusual time gap between invoices against a PO	11
PO004_DEL001	Purchase Order	PO "Extended Price" above delegation	108
PO004_DEL001	Purchase Order	PO "Extended Price" above delegation	108
PO004_DEL002	Purchase Order	PO Amount above delegation	0
PO004_DEL002	Purchase Order	PO Amount above delegation	0

PO004_DEL003	Purchase Order	Split POs	51
PO004_DEL003	Purchase Order	Split POs	51
PO005_USR001	Purchase Order Line	PO entered outside "normal" work hours	24
PO005_USR001	Purchase Order Line	PO entered outside "normal" work hours	24
PO005_USR002	Purchase Order Line	PO modified outside "normal" work hours	0
PO005_USR002	Purchase Order Line	PO modified outside "normal" work hours	0
PO005_USR003	Purchase Order Line	PO requested outside "normal" work hours	45
PO005_USR003	Purchase Order Line	PO requested outside "normal" work hours	45
PO005_USR004	Purchase Order Line	PO created by user on leave	0
PO005_USR004	Purchase Order Line	PO created by user on leave	0
PO005_USR005	Purchase Order Line	PO created by terminated user	0
PO005_USR005	Purchase Order Line	PO created by terminated user	0
PO005_USR006	Purchase Order Line	PO requested by user on leave	180
PO005_USR006	Purchase Order Line	PO requested by user on leave	180
PO005_USR007	Purchase Order Line	PO requested by terminated user	0
PO005_USR007	Purchase Order Line	PO requested by terminated user	0
PO005_USR008	Purchase Order Line	PO approved by user on leave	158
PO005_USR009	Purchase Order Line	PO approved by terminated	0

#### Number of Exceptions - Vendor Tests

Test ID	Object	Description	No. of Exceptions
VEN001_NAM001	Vendor	Vendor name is blank/empty	0
VEN001_NAM002	Vendor	Vendor name contains {keyword}	549
VEN002_ABN001	Vendor	ABN is blank/empty	61
VEN002_ABN002	Vendor	ABN is not numeric	2
VEN002_ABN003	Vendor	ABN is a repeated numeric	2
VEN002_ABN004	Vendor	ABN failed ATO algorithm	0
VEN003_ACN001	Vendor	ACN is blank/empty	0
VEN003_ACN002	Vendor	ACN is not numeric	0
VEN003_ACN003	Vendor	ACN is a repeated numeric	0
VEN003_ACN004	Vendor	ACN failed ATO algorithm	0
VEN004_ADD001	Vendor Address	Address is blank/empty	0
VEN004_ADD002	Vendor Address	Address is "Care of"	1422
VEN004_ADD003	Vendor Address	Address is PO Box	0
VEN004_ADD004	Vendor Address	Address has an invalid Postcode	45
VEN004_ADD005	Vendor	Vendor does not have an address	33
VEN005_BNK001	Vendor Bank	Bank account is blank/empty	26
VEN005_BNK002	Vendor Bank	Bank account is not numeric	3
VEN005_BNK003	Vendor Bank	Bank account is repeated value	1
VEN005_BNK004	Vendor Bank	Bank account is abnormal length	9
VEN005_BNK005	Vendor Bank	BSB not found in BSB listing	29
VEN005_BNK006	Vendor	Vendor does not have a bank account	185
VEN005_BNK007	Vendor	Vendor has at least 1 valid bank account	0
VEN006_USR001	Vendor	Changes to vendor record outside business hours	0



VEN006_USR002	Vendor	Changes to vendor record when user on leave	2
VEN006_USR003	Vendor	Changes to vendor record by terminated user	0
VEN006_USR004	Vendor Bank	Changes to vendor bank record outside business hours	0
VEN006_USR005	Vendor Bank	Changes to vendor bank record when user on leave	1
VEN006_USR006	Vendor Bank	Changes to vendor bank record by terminated user	0
VEN006_USR007	Vendor Bank	Short-Term Changes to vendor bank account	0
VEN008_VAL001	Vendor	Seldom used vendor in period (< 3 invoices)	588
VEN008_VAL002	Vendor	All vendor invoices created / modified by a single user	255
VEN009_VCH001	Vendor	Difference between cumulative payment vouchers and payments	0

### Sampling Methodology

Sample sizes were selected using a risk-based methodology, which sought to target testing at the transactions most likely to represent a potential risk, policy breach or inappropriate activity, or that may provide insights into potential process improvement opportunities.

Data analysis identifies a population of transactions which have triggered an exception, summarised in the 'Total Exceptions noted' columns above. For accounts payable, around 90 tests have been run to identify possible exceptions. Some exceptions in isolation are relatively mundane, but the more exceptions triggered by a transaction, and the stronger the interrelationships between exceptions against a single transaction, the more likely it is that there may be a legitimate issue requiring investigation. Other exceptions in and of themselves are higher risk.

Each transaction is risk rated based on the number and nature of exceptions flagged against it. Whilst a large number of transactions may trigger exceptions, many of these do not warrant further investigation as the exceptions triggered are, in isolation or in the absence of other related exceptions, considered low risk. In addition, a review of the exceptions data collected during the analysis phase can rule out the need to perform further detailed testing if exceptions can be readily explained based on an understanding of business process or the nature of the transaction.

#### Specific examples include:

PO and non-PO identified split transactions:

- Several are known to be linked to larger contracts, meaning the risks associated with splitting (i.e. attempts to bypass delegations) are not relevant. Audit obtained the contract register to confirm the existence of contracts for a sample of these.
- A number of the splits appear legitimate based on the nature of the supply, and have insignificant dollar values.
- There are several split invoices related to the same suppliers. Our testing included a sample of one or two occurrences against each of these suppliers to determine whether there is a legitimate reason to raise multiple purchase orders. Sample sizes were able to be increased if issues were found to confirm the extent of the issue. Such increases were not required.

Duplicate invoices

- There are many duplicate invoices related to the same suppliers. Our testing included a sample of one or two occurrences against each of these suppliers to determine whether there is a legitimate reason why duplicate invoices may be common. If it was found that there were issues with these suppliers, the sample size was able to be increased to confirm the extent of the issue. Such increases were not required.
- A number of the duplicate invoices appear legitimate based on the nature of the supply. For example, it is common for car dealerships to issue multiple invoices of equal value when multiple cars of the same type are purchased. Our sample included, in this instance, a selection of car dealerships to confirm or disprove this hypothesis. Again, if it was found that there were issues with these suppliers, the sample size would be increased to confirm the extent of the issue. Such increases were not required.



#### High Risk POs, Vendors and Payslips

- As described in the methodology above, what appears to be a small sample as a percentage of the total population has been carefully selected based on the risk profile of the exceptions to identify the transactions most likely to represent actual issues.
- If findings are made against these sample transactions that may be indicative of broader process issues (i.e. could potentially be systemic issues), the sample was able to be expanded to include additional transactions impacted by the identified issue. Such increases were not required.

#### Sample Sizes Selected

Audit test	Total exceptions noted	Associated risk	Sample size
Purchase Order (PO) Splitting	51	Intentional use of splitting to by-pass delegation controls.	11
Non-PO Invoice Splitting	41	Intentional use of splitting to by-pass delegation controls.	8
Duplicate Invoices	668	Overpayment for goods / services	18
Open POs	1539	Inappropriate / unrelated invoices are applied to open POs.	10
Overspent POs	310	Indicator of potential failure of PO controls, negates control provided by PO.	4
Higher Risk POs (at least 1 exception flagged)	3769	Various - general risk of inappropriate PO use.	12
Higher Risk Vendors (at least 1 exception flagged)	664	Various - general risk of inappropriate Vendor use.	7
Vendor-Employee Master File Match	5	Related party transactions, inappropriate / fraudulent payments.	2

#### Results of Testing

Results of testing are included, on an exception basis, against the relevant finding in the body of this report.

## Appendix 2 – Classification of Internal Audit Findings

### Foundation and Value Adding audit findings

Audit findings rated as foundation and value added findings do not necessarily meet every criterion listed below but could comprise one or more items.

- Control weaknesses that could lead to misappropriation, losses or misstatement of financial results but which are compensated for by informal controls. There is no reliance that the informal control system will continue to operate in a consistent fashion.
- Control weaknesses that could result in a loss considered significant by internal audit and management and upwards, but have not yet resulted in a loss and which are being properly addressed by management.
- Some segregation of duties issues.
- Policy non compliance
- A lack of policy and procedures covering significant transactions/activities or non-compliance with policies and procedures covering significant transactions/activities.
- Risks are not being effectively managed which could result in failure to ensure that the Council's objectives are met

### Future improvement opportunities (FIO)

Audit findings rated as FIO do not necessarily meet every criterion listed below but could comprise one or more items.

- Objectives are being partially achieved
- Limited segregation of duties and delegation
- Control weaknesses are of minor importance and are not likely to significantly impact the accuracy of results or effectiveness of operations.
- Strengthening of controls/processes and policies would benefit the organisation and lead to improved and efficient operations.
- Controls that provide management with worthwhile benefits relative to greater confidence in decision-making.
- Some controls, if re-engineered, would benefit productivity or effectiveness.

### Appendix 3 – Comparison of centre led model vis-a vis decentralised purchasing

Description	Centre Led model	De-centralised model
Procurement function	Central Purchasing Centre of Excellence+ Adequately sized, structured local teams	Separate Procurement organizations
Reporting lines	Dual reporting to department head and Procurement Manager	Dotted line reporting to Procurement Manager and Executives.
Policies, processes and best practices	Best practices, policies and processes are centralized and redistributed/ enforced through the Procurement network	Difficult to implement best practices across organisation
Supplier relationship management	Supplier relationship coordinated centrally and deployed locally	Limited supplier relationship management
Information and knowledge sharing	Information and knowledge are centralized and redistributed adequately through the procurement/purchasing teams	Some degree of information/ knowledge sharing, coordination and collaboration
Issue resolution speed	Issues are dealt with at the appropriate level and resolution time depends on flow of information across Procurement Network	Fast reaction time/ issue resolution
Risk management	Systematic and well developed risk management across the entire organization	Focus on availability of goods and service
Critical success factors	Strong leadership and alignment of objectives among COE, Executive Management, Procurement Manager and the various departments	Meet/ Beat the budget

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# **INFORMAL DISCUSSION**

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**6.1 Long Term Financial Plan Update**

**Presenter:** Ms Samantha Grieve

**Purpose:** Provide an update to the Committee regarding the process and status of the Long Term Financial Plan.

**Duration:** 15 Minutes

**6.2 Committee Work Plan Review**

**Attachments :**        1 [!\[\]\(d3fb9f94af8b26d1c844efa9a98805b0\_img.jpg\).](#) Committee Work Plan

**Presenter:**        Mr Barry Porter

**Purpose:**            For the Committee to consider the Work Plan and future agenda items.

**Duration:**         5 Minutes



[illegible]