

Procurement and Data Mining Internal Audit Report

Submitted by

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Distribution	
For action	For information
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	September 2021
#2	Establish a procurement steering committee	Sam Green	n/a
#3	Procurement policy to be updated to include an information session to prospective tenderers	Barry Porter	March 2021
#4	Need to develop and implement a procurement reporting framework	Barry Porter	June 2021
#5	Strengthen the procurement exemptions process by exploring options for digitising exemptions through TechOne and implementing exemption reporting	Barry Porter	June 2021
#6	Review the open purchase order report and investigate long outstanding purchase orders	Barry Porter	March 2021
#7	Monitor instances of purchase order splitting and report on non-compliances on a monthly basis	Barry Porter	June 2021
#8	Formalise periodic review of the vendor master file	Barry Porter	June 2021
#9	Detailed workforce plan to be developed for procurement function	Barry Porter	September 2021
#10	Opportunity to develop and establish procurement KPIs	Sam Green	n/a
#11	Purchasing training and refresher training to be undertaken by every staff member involved in purchasing	Barry Porter	September 2021
#12	Opportunity to enhance the risk management process for procurement activities	Barry Porter	June 2021
#13	Explore the possibility of hierarchy based approvals in TechOne for all purchases	Barry Porter	June 2021

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.

Responsibility Barry Porter

Target date September 2021

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.

Responsibility Sam Green

Target date N/A

3 Procurement policy to be updated to include an information session to prospective tenderers

Foundation and Vale Add 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.

Responsibility: Barry Porter

Target date March 2021

#4 Need to develop and implement a procurement reporting framework

Foundation and Vale Add 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.

Responsibility: Barry Porter

Target date June 2021

#5 Strengthen the procurement exemptions process by exploring options for digitising exemptions and implementing exemption reporting

Foundation and Vale Add 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 agrees with the recommendation and intends to make business changes to implement.

Responsibility Barry Porter

Target date June 2021

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

Foundation and Vale Add 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
Grand Total	\$13,830,930.84	576

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 March 2021

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

Foundation and Vale Add 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 June 2021

8 Formalise periodic review of the vendor master file

Foundation and Value Add 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.

Responsibility Barry Porter

Target date June 2021

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.

Responsibility Barry Porter

Target date September 2021

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 N/A

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.

Responsibility Barry Porter

Target date September 2021

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.

Responsibility Barry Porter

Target date June 2021

#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 June 2021

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 rates 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