

MOORE STEPHENS

Forensic Audit Report
presented to

**Warrumbungle Shire
Council**

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Forensic Audit Report

Prepared for:

Warrumbungle Shire Council
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1. Disclaimer

- 1.1 This report has been prepared for and at the request of Warrumbungle Shire Council. It is not intended for broader publication or circulation and is not to be reproduced or used for any other purpose without our prior written consent in each specific instance. No other party should use or rely on this report and Moore Stephens (SA) Pty Ltd, its directors and employees specifically disclaim any liability to any other party who acts on or relies on this report.
- 1.2 In preparing this report we have relied on source information provided to us by the elected members, management and employees of Council.
- 1.3 We have relied on this information being accurate and complete and we have no reason to believe that this is not the case. Nonetheless, no independent audit of this information has been completed and we have not sought to verify this or conducted such fuller examination of all of the information to satisfy this position. We have no reason to believe that any material facts have been withheld from us but do not warrant that our enquiries have revealed all matters relevant to the engagement.
- 1.4 In the event that any additional information is provided to us after the date of this report or any variation in the information already provided then we reserve the right to review and amend any opinions provided in this report such as we consider necessary.

2. Introduction

- 2.1 We have been engaged by Council in accordance with the Resolution to conduct an initial investigation centred on the period 1 July 2016 to 30 June 2017 in the areas of procurement, employee remuneration and entitlements with specific focus on:
 - 2.1.1 Use of Council credit cards
 - 2.1.2 Exercise of delegated authority to procure contracted and outsourced services
 - 2.1.3 Cashing out of accrued employee leave entitlements
- 2.2 The nature of the audit is to identify areas of risk that may give rise to fraud, misappropriation or impropriety in the disbursement of Council finances over that period.
- 2.3 We conducted our engagement in accordance with the Australian Auditing Standard ASRS 4400 *Agreed Upon Procedures Engagements to Report Factual Findings*. The standard requires that we comply with ethical requirements equivalent to “other assurance engagement”, including independence, and that we plan and perform the agreed procedures to obtain factual findings. The procedures which we performed were restricted to those procedures agreed with Council, except as otherwise noted.
- 2.4 We have agreed to perform the following procedures and report the factual findings resulting from our work:
 - 2.4.1 Documentation of relevant policies, processes and procedures
 - 2.4.2 Identification of controls
 - 2.4.3 Testing of controls for weaknesses

3. Definitions

3.1 Following are the terms, abbreviations and acronyms used throughout this report.

Full description	Abbreviation
Australian Business Number	ABN
Chief Financial Officer	CFO
Civica Authority enterprise software of WBC	Civica
Electronic Funds Transfer	EFT
Fit For The Future programme of the New South Wales state government	FFF
General Manager	GM
Human Resources	HR
Independent Commission Against Corruption	ICAC
Key Management Personnel	KMP
Key Performance Indicator	KPI
██████████	██████████
Resolution of Council at a meeting held on 19 October 2017: <i>Item 9 Forensic Audit</i> <i>138/1718 A motion was moved by Councillor Iannuzzi and seconded by Councillor Doolan that Warrumbungle Shire Council commissions a forensic audit of Council finances for the period 1 July 2013 to 30 September 2017. The auditors are to be approved by vote of Council and not a sole decision of the Mayor.</i>	Resolution
1 July 2016 to 30 June 2017	Review period
Warrumbungle Shire Council	Council or WSC

4. Executive Summary

- 4.1 Warrumbungle Shire Council resolved to engage a suitable service provider to conduct a forensic audit of Council finances for the period 1 July 2013 to 30 September 2017. The nature of the audit is to identify areas of risk that may give rise to fraud, misappropriation or impropriety in the disbursement of Council finances over that period.
- 4.2 After discussion and negotiation with management, and in accordance with a resolution of Council, it was agreed we perform the following procedures in the areas selected for the period 1 July 2016 to 30 June 2017, and report the factual findings resulting from our work:
 - 4.2.1 Documentation of relevant policies, processes and procedures
 - 4.2.2 Identification of controls
 - 4.2.3 Testing of controls for weaknesses
- 4.3 Our low-level testing in these areas revealed a number of issues which have been raised with recommendations for improvement against best practice.
- 4.4 As part of the forensic investigation work for Council it was deemed necessary to perform some data analytics over specific master-file information.
- 4.5 Our investigations mostly highlighted instances of duplication within Civica, indicating poor maintenance of the creditors and employee masterfile data over time. Recommendations for improvement in this area have been made.
- 4.6 In all, this initial investigation did not identify any incidence of fraud, misappropriation or impropriety in the disbursement of Council finances over the period reviewed.
- 4.7 To supplement the lower-level work performed and outlined above, we conducted a high level enquiry of matters related to governance and ancillary functions of Council. Those matters include:
 - 4.7.1 Financial management;
 - 4.7.2 Management reporting;
 - 4.7.3 Accountability, due diligence and exercise of delegated authority; and
 - 4.7.4 Internal reporting lines and chain-of-command.
- 4.8 Although outside the scope of our engagement, those lines of enquiry found that the matters identified may potentially be attributable to policy and politics as opposed to procedure. Nonetheless, should concerns remain about specific activities, there are potential areas of high risk that may warrant revisitation or a more in-depth investigation.

4.9 Those areas may potentially include:

- 1.4.1 Progress against the audit management reports and governance letters of external auditors;
- 1.4.2 Progress against selected performance criteria, such as the FFF assessments;
- 1.4.3 Probity enquiry into specific projects of Council, such as waste management and major facilities investment;
- 1.4.4 Review into internal management reporting including cost-capturing, budgeting, forecasting and financial modelling;
- 1.4.5 Review of asset management practices such as light fleet, major plant or even departmental structure and function; and
- 1.4.6 Comprehensive assessment of finance department policy, procedures and practices.

5. Council Overview and Background Information

5.1 The Warrumbungle Shire is a local government area in the central western region of New South Wales, Australia.

5.2 Warrumbungle Shire Council is composed of nine Councillors elected proportionally as a single ward.

5.3 Its vision is: Excellence in Local Government

5.4 Its mission is to provide:

- Quality, cost effective services that will enhance our community's lifestyle, environment, opportunity and prosperity.
- Infrastructure and services which meet the social and economic needs and aspirations of the community now and in the future.
- Effective leadership and good governance, by encouraging teamwork, through a dedicated responsible well trained workforce.

5.5 Its values are:

- **Honesty**
Frank and open discussion, taking responsibility for our actions
- **Integrity**
Behaving in accordance with our values
- **Fairness**
Consideration of the facts and a commitment to two way communication
- **Compassion**
Working for the benefit and care of our community and the natural environment
- **Respect**
To ourselves, colleagues, the organisation and the community listening actively and responding truthfully
- **Transparency**
Open and honest interactions with each other and our community
- **Passion**
Achievement of activities with energy, enthusiasm and pride
- **Trust**
Striving to be dependable, reliable and delivering outcomes in a spirit of goodwill
- **Opportunity**
To be an enviable workplace creating pathways for staff development

- 5.6 Warrumbungle Shire Council has resolved to engage a suitable service provider to conduct a forensic audit of Council finances for the period 1 July 2013 to 30 September 2017. We understand the nature of the audit is to identify areas of risk that may give rise to fraud, misappropriation or impropriety in the disbursement of Council finances over that period.
- 5.7 After discussion with management, and in accordance with a resolution of Council, it was agreed to narrow the scope of the assignment so as to focus on key areas of risk within a narrower time period. The intent of this was to adopt a risk-based approach that would enable Council to be better informed prior to embarking on a potentially more in-depth forensic audit that may incur significant costs.

6. Approach and Methodology

- 6.1 The approach adopted for this engagement was developed from an understanding gained through discussions with key personnel that the context of the Resolution was around concerns held by some elected members that due process may not have been historically followed in key risk areas of Council's financial operations.
- 6.2 We agreed with management that certain key areas were inherently risky, and that attention should be focused on those in the first instance as an initial phase of the forensic audit. The results of this phase were expected to inform Council on the desirability for a second, more comprehensive engagement to be scoped as required.
- 6.3 We have agreed to perform the following procedures in the areas selected for the period 1 July 2016 to 30 June 2017, and report the factual findings resulting from our work:
 - 6.3.1 Documentation of relevant policies, processes and procedures
 - 6.3.2 Identification of controls
 - 6.3.3 Testing of controls for weaknesses
- 6.4 The results of these procedures are reported below.

7. Credit Cards

- 7.1 Documentation of the credit cards system was performed through discussions with the Senior Accountant.
- 7.2 A walkthrough of the Council credit card system was performed, identifying and documenting the following processes:
 - 7.2.1 Application and issue
 - 7.2.2 Approval and registration
 - 7.2.3 Processing and recording of transactions
 - 7.2.4 Endorsement and approval of transactions
- 7.3 The following key controls were identified:
 - 7.3.1 Appropriate approval of credit card application
 - 7.3.2 Recording on credit card register
 - 7.3.3 Reconciliation of transactions to supporting documentation by appropriate staff
 - 7.3.4 Review and redress of exceptions
 - 7.3.5 Endorsement of monthly statements by cardholder
 - 7.3.6 Approval of monthly statements by appropriate superior
 - 7.3.7 Cancellation of cards for terminating employees
- 7.4 These controls were then tested for compliance with the following additional observations:
 - 7.4.1 Endorsement of credit card authority
 - 7.4.2 Monthly limit agreed to register of delegations
 - 7.4.3 Monthly limit not breached
 - 7.4.4 Statements addressed to staff other than cardholder
 - 7.4.5 Prima facie legitimacy of expenditure
 - 7.4.6 Suspect or personal transactions
 - 7.4.7 Missing supporting documentation
- 7.5 The selected scope of the testing performed above was:
 - 7.5.1 6 alternating months each for the GM and Mayor
 - 7.5.2 1 employee per month for all other staff selected at random
- 7.6 Weaknesses and deficiencies, implications for Council and recommendations accordance with best practice in relation to the above are attached as Appendix 1.

8. Procurement

- 8.1 Documentation of the procurement system was performed through discussions with the Senior Accountant and [REDACTED] identifying and documenting the following processes:
 - 8.1.1 Establishment and management of supplier masterfiles
 - 8.1.2 Purchasing
 - 8.1.3 Invoice processing
 - 8.1.4 Payments
- 8.2 The following key controls were identified:
 - 8.2.1 Confirmation of supplier ABNs
 - 8.2.2 Production and review of monthly audit reports on changes to supplier details
 - 8.2.3 Confirmation with supplier of changes to bank account details
 - 8.2.4 Review and authorisation of supplier payment details
 - 8.2.5 Setting of delegation limits in Civica at both the requisition and approval levels
 - 8.2.6 Registration of delegation limits for employees
 - 8.2.7 Approval of requisition orders
 - 8.2.8 Sequential numbering of requisition orders
 - 8.2.9 Deliveries agreed to requisition order
 - 8.2.10 Tiered authorisation for payment
 - 8.2.11 Retention of invoices and associated documentation
 - 8.2.12 Dual cheque account endorsement
 - 8.2.13 Cross-check of pre-payment run extract
 - 8.2.14 Double-check of bulk EFT pre-payment
 - 8.2.15 Dual authorisation of bulk EFT payment run
 - 8.2.16 Notification to supplier of payment
 - 8.2.17 Retention of EFT records
- 8.3 Weaknesses and deficiencies, implications for Council and recommendations accordance with best practice in relation to the above are attached as Appendix 2.
- 8.4 Due to the importance of high-level processes in this area, further examination of the quotation and tendering system was performed as set out below.
- 8.5 A walkthrough of the tendering and quotations system was performed, identifying and documenting the following processes:
 - 8.5.1 As for the procurement system above
 - 8.5.2 Compliance with Council policy
 - 8.5.3 Compliance with relevant legislation

- 8.6 The following key controls were identified:
- 8.6.1 Tender process required for all procurements in excess of \$149,999
 - 8.6.2 Filing of all supporting documents in tenders file
 - 8.6.3 Documented quotations for procurements <\$10,000
 - 8.6.4 Formal request for procurements >\$10,000
 - 8.6.5 Brief outline of services in quotation for procurements \$10,000 - \$70,000
 - 8.6.6 At least 3 quotations must be sought for procurements >\$10,000
 - 8.6.7 At least 1 formal quotation must be sought for procurements >\$10,000
 - 8.6.8 Specification or brief for the services, assessment criteria, pricing schedule and closing date for procurements >\$70,000
 - 8.6.9 Evaluation of tenders by assessment panel
 - 8.6.10 Tender process conducted in accordance with 'Tendering Guidelines for NSW Local Government, October 2009' and associated checklist
- 8.7 These controls were then tested for compliance.
- 8.8 The selected scope of the testing performed above was:
- 8.8.1 3 quotations awarded, selected at random.
 - 8.8.2 2 tenders awarded, selected at random.
- 8.9 Weaknesses and deficiencies, implications for Council and recommendations accordance with best practice in relation to the above are attached as Appendix 3.

9. Employee Entitlements

9.1 A walkthrough of Council payroll system was performed, identifying and documenting the following processes:

- 9.1.1 Recruitment
- 9.1.2 Payroll masterfile maintenance and approval
- 9.1.3 Timesheet recording and approval
- 9.1.4 Leave entitlements recording and approval
- 9.1.5 Leave entitlements calculation and approval
- 9.1.6 Payment processing and approval
- 9.1.7 Termination procedures

9.2 The following key controls were identified:

- 9.2.1 Recruitment process are reviewed and approved
- 9.2.2 Changes made to the payroll master file are substantiated with approval provided by employee and reviewed and approved by HR manager
- 9.2.3 Appropriate approval of timesheets
- 9.2.4 Appropriate approval of leave application forms
- 9.2.5 Monthly payrun reports are reviewed and authorised by the HR Manager
- 9.2.6 Departmental payroll reports are approved by the department managers on a monthly basis
- 9.2.7 Monthly payment are processed by the accounts payable team and approved by the senior accountant
- 9.2.8 Employee termination process is reviewed and approved by the HR manager

9.3 These controls were then tested for compliance with the following additional observations:

- 9.3.1 Appropriate authorisation of timesheets
- 9.3.2 Appropriate authorisation of payrun report
- 9.3.3 Timesheet agreed to payrun report
- 9.3.4 Payrun report is approved by the department manager
- 9.3.5 Appropriate authorisation of leave application form
- 9.3.6 Leave application form agreed to the leave taken report

9.4 The selected scope of the testing performed above was:

- 9.4.1 4 alternating months each for the GM
- 9.4.2 20 timesheets for different employees selected at random
- 9.4.3 All leave application forms for GM
- 9.4.4 4 employee's leave application forms selected at random

9.5 Weaknesses and deficiencies, implications for Council and recommendations accordance with best practice in relation to the above are attached as Appendix 4.

10. Forensics

- 10.1 As part of the forensic investigation work for Council it was considered appropriate to perform data analytics over specific masterfile information. Masterfile data is created when new supplier, employee or other important references are entered into general ledger software so that it can be accessed as required by other modules in the programme. It contains the specific details that pertain to any supplier or employee (for example) and includes data such as name, address and credit limits, amongst others.
- 10.2 The masterfile information for creditors and employees was requested from Civica which was provided in Excel format. This allows manipulation and testing of the data using techniques developed in our statutory audit engagements for local government. This testing methodology has provided valuable feedback to our clients in respect of systems and process improvement, as well as trend analysis and risk review.
- 10.3 For WSC the purpose of these tests is to determine risk areas for either inappropriate or potential fraudulent activities. It is also to provide feedback as to the integrity and accuracy of components of Civica.
- 10.4 **Tests Conducted**
- 10.5 On the basis of the data that was made available the following tests have been performed with respect to creditor and employee information.
- 10.6 In general, duplicates within payroll and creditor masterfile data increase the chances of duplicate payments being made to suppliers and employees.
- 10.7 Creditors
- 10.7.1 Test 1: Duplicate ABN
 - 10.7.2 Test 2: Duplicate bank details cross-referenced to Councillors' bank details
- 10.8 Test 1 may highlight any duplicate records in the software, the existence of which could lead to suppliers being paid twice either through impropriety or error. Where the duplicate ABN data corresponds to different supplier names, this could highlight a risk of fraud as the potential exists for payments to be made to fictitious suppliers.
- 10.9 Test 2 may also highlight duplicate records, as above, however can also determine the existence of fictitious suppliers and suppliers that also relate to Councillors. In such instances inappropriate relationships could exist.

10.10 Employees

10.10.1 Test 1: Duplicate employee details

10.10.2 Test 2: Cross-check employee bank details to suppliers bank details

10.11 Test 1 may again highlight duplicate records within the software, implying that duplicate payments could be made to employees through either impropriety or error. As with the creditors testing, where duplicates exist with different employee names this could indicate the presence of fictitious employees. Fictitious employees can be an indication of fraudulent activity.

10.12 Test 2 can highlight relationships between Council employees and suppliers. Whilst it is common, in our experience, that employees may be set up as creditors to expedite efficient processing of travel (and other) expenses, it does increase the risk of duplicate payments being made if appropriate internal controls are not in place to prevent it.

10.13 In addition to the above, the presence of duplicate bank records in both payroll and creditors can be an additional indication as to the presence of fictitious employees and suppliers. The presence of such instances could highlight inappropriate relationships between council staff or Councillors and the businesses that supply Council.

10.14 Where any of the above tests return positive results, we recommend further investigation by Council to ascertain the nature of the underlying transactions.

10.15 Limitations of scope

10.16 As with any work of this nature the results only relate to the data that is supplied. The following issues were noted in terms of the data provided:

10.16.1 The creditors masterfile had entries where either some of the information, or all of the information, was not included in the reports provided. As a result our findings may not highlight all instances of duplication within the data set.

10.16.2 The employee masterfile data had similar omissions as above. Again the results below may not reflect all instances of duplication.

10.17 Findings

10.18 Creditors Test 1

10.19 Appendix 5 highlights all instances where duplicate creditor records were noted. This highlights a common issue on accounting packages whereby multiple creditor cards exist for one supplier. Where this situation exists the following risks are:

10.19.1 It would be possible for suppliers to be paid for the same service or good multiple times.

10.19.2 Invoices for the same goods or service can be entered multiple times thus inaccurately increasing expense lines in the profit and loss.

10.19.3 Reconciling supplier statements may become difficult.

10.20 In addition Appendix 6 details the supplier cards that were found to have multiple ABN's. Whilst there may be explanations for these suppliers it would be reasonably expected that each supplier in the masterfile would have a unique ABN.

10.21 Creditors Test 2

10.22 From the data provided there were no instances where the bank account number of a supplier to Council was found to match the bank account of any of its Councillors.

10.23 Appendix 7 shows the results of the duplicate bank account testing, and lists the results with the corresponding supplier names. As can be seen there are several bank account numbers that relate to different supplier names in Civica.

10.24 Employees Test 1

10.25 Appendix 8 shows the duplicates found within the employee masterfile data. The corresponding name is that of the first record in the duplication only. As can be seen there are multiple employee records which appear twice or greater in the employee masterfile data.

10.26 As mentioned in the 'tests conducted' section, where employees exist in the masterfile data it increases the risk of payments being made twice to those individuals. This will overstate payroll expenses in the profit and loss account.

10.27 There also appears to be 2 instances of "non-employees" being recorded in the employee masterfile.

10.28 Employees Test 2

10.29 Appendix 9 sets out instances where the same bank account details were found in the employees and suppliers masterfile data. In most cases the account owners appear to be named the same, however there are two instances where an employee was found to share the same bank account details as a non-individual entity.

10.30 **Recommendations**

10.31 Our investigations mostly highlighted instances of duplication within Civica. Typically this is an indication of poor maintenance of the creditors and employee masterfile data over time, resulting in multiple entries for any given supplier or employee.

10.32 As discussed previously this increases the risk of payments being made either through error, or for the purposes of asset misappropriation. It is therefore not possible to eliminate the possibility of fraudulent or inappropriate activity with Council assets.

10.33 We make the following recommendations in respect of the employee and creditor masterfile data:

10.33.1 All instances of duplication should be fully investigated by Council as soon as is practical. The reasons for all duplications noted in the appendices to this report should be understood, in the first instance to rule out any inappropriate activity.

10.33.2 For each duplication the transactions on the supplier and employee cards should be investigated to ensure that there has been no unauthorised activity, and that no supplier has been paid twice. If any instances are found then Council should follow them up immediately with the individuals involved.

10.33.3 Council should, where possible, eliminate all duplicated supplier and employee information to prevent any issues in the future.

10.33.4 If they do not already exist, Council should develop suitable policies and procedures that embed appropriate controls over the integrity of the data input to Civica.

11. Governance

- 11.1 During the course of the Forensic Audit it came to our attention that there were concerns at a high level that Council had been dysfunctional in its performance or did not exercise due diligence so far as procurement was concerned. To supplement the lower-level work performed and described above, we have conducted a high level enquiry of matters brought to our attention.
- 11.2 As this engagement was scoped as an initial, exploratory investigation it should be noted that this additional activity does not form part of our *Agreed Upon Procedures Engagement to Report Factual Findings*, and is intended only to validate the conclusions and recommendations reached.
- 11.3 The information gathered for this purpose was obtained through:
 - 11.3.1 Casual, informal and “off-the-record” conversations with elected members and staff of Council;
 - 11.3.2 Perusal of Council ordinary meeting minutes, business papers and confidential business papers; and
 - 11.3.3 Perusal of various files and documents of note arising from the above.
- 11.4 Matters of particular concern raised by those interviewed included:
 - 11.4.1 Insufficient disclosure of relevant information for decision-making
 - 11.4.2 Assertive and obstructive behaviour by management
 - 11.4.3 Local businesses are concerned at failure to win contracts bid for at Council
 - 11.4.4 Cross-approval of procurements and leave entitlements
 - 11.4.5 Insufficient detail in the recording of Council minutes and decision-making
 - 11.4.6 Absence of an internal audit committee or function
 - 11.4.7 Lack of diligence and accountability in the exercise of delegated authority
 - 11.4.8 Deficient standard of managerial finance reporting for decision-making, such as accuracy of cost-capturing, modelling and budgeting
 - 11.4.9 Internal reporting lines and chain-of-command prevent Council staff from escalating concerns beyond the GM
 - 11.4.10 KPIs of Council staff not aligned with its strategic plan
- 11.5 Our high-level review focused on the matters raised above. Items of note are summarised as follows.
- 11.6 **Financial Management**
- 11.7 During the routine course of annual audit, external auditors identify areas of weakness in the systems and controls of Council financial management. This is not unusual.

11.8 Our low-level procedures detailed above are not dissimilar, and have identified areas for improvement which are contained elsewhere in this report.

11.9 Discussions with the GM and CFO informed us that all are being addressed progressively, and we found no reason to doubt this.

11.10 From a review of recent events, enquiry was made of the GM in the following areas:

11.10.1 Dealings or matters related/referred to ICAC since the elections of September 2016

11.10.2 Progress of the maintenance of the FFF status of Council including benchmarking

11.10.3 Is there any way to verify there are no pecuniary interests of Councillors that compromise decision-making, for example Related Party Disclosure Forms of KMPs on a 6-monthly basis?

11.11 In response to the above we were advised, or otherwise found for ourselves:

11.11.1 The matters related/referred to ICAC were in relation to a disaffected former supplier of waste management services. Council papers indicate this matter has passed scrutiny by ICAC.

11.11.2 The FFF program has been scrapped and merged into a new initiative.

11.11.3 There is no process in place for greater scrutiny in the area of verification of Councillor related-party disclosures.

11.11.4 The reintroduction of an Internal Audit Committee function was approved in November 2017.

11.12 It was noted the GM is relatively new to his appointment with WSC, and had prioritised the following initiatives:

11.12.1 Monthly divisional director reporting

11.12.2 Legislative and regulatory compliance

11.12.3 Projects and processes

11.12.4 Grants compliance

11.13 **Management Reporting**

11.14 It came to our attention that there were concerns held by some that, for example:

11.14.1 A long-standing waste management service outsourced to a local supplier had been brought in-house on the basis of internal costings that were later found to be understated

11.14.2 Talk and hearsay around the reallocation of staff costs among cost centres so as “not to alert Councillors”

11.15 Our high-level review revealed no apparent deficiencies in financial management reporting. However, it must be said that a review of this nature will not necessarily reveal matters such as inaccuracies in budgeting, forecasting, costing, project accounting and the like. These are beyond the present scope, and a targeted analysis of selected items of this nature may conclude otherwise.

11.16 Accountability, Due Diligence and Exercise of Delegated Authority

11.17 The matters raised above in relation to lack of diligence in the exercise of delegated authority, the behaviours of management and a culture of non-accountability were not able to be adequately tested due to a lack of documented or independently-verifiable information available.

11.18 It was apparent from a review of Council minutes and associated papers that there has been dissatisfaction in these matters and measures have been introduced to address them. These include higher standards of monthly reporting by the Mayor and the GM.

11.19 However there is little recorded that lends itself to an independent third party such as ourselves or, importantly, ratepayer assessment of the deliberations of Council and its decision-making. There is nothing in the legislation we are aware of that requires this.

11.20 For the sake of practicality it is suggested that this need not occur. The process of elections and formal review of senior management are relied upon to hold accountable those to whom those positions of authority are entrusted.

11.21 It is noted that a voice recording system for use in Council meetings has been approved. This initiative ought to facilitate greater transparency of the decision-making functions of Council, particularly at the higher level, and should go a considerable way toward addressing the concerns of stakeholders in the community who have felt aggrieved in the past.

11.22 There is an inherent risk, particularly in regional Councils such as WSC, that favouritism and corruption may occur in the exercise of delegated authority. This is difficult to detect and monitor, particularly where the existence of preferred suppliers and a policy of local business promotion is concerned.

11.23 That said, while it might be impractical to implement controls so restrictive as to openly hold to account each and every delegate in their decision-making, targeted or random enquiries could be commissioned into matters of more material concern. These being larger-scale procurements such as, for example, those contracted to construct various components of the Three Rivers Regional Retirement Centre.

11.24 Other targeted areas for review, particularly with the benefit of hindsight, might be such major strategic decisions as the reorganisation of waste management and the financial modelling underpinning them.

11.25 Internal Reporting Lines and Chain-of-Command

11.26 Whilst not within the scope of this report it is worth mentioning that there would appear to be restrictions in place that prevent direct communication between more than one tier of management. Notably, the GM holds a key position between the top tier of elected membership and the executive management of Council.

11.27 It is apparent that any stakeholder that has an issue with the GM has few options available to them to redress that. Nonetheless, this is a situation prevalent throughout government at all levels and, indeed, the private sector.

11.28 It is noted that the performance of the GM of WSC is independently reviewed annually.

12. Summary

- 12.1 Our low-level testing in the areas of credit cards, procurement and employee entitlements revealed a number of issues which have been raised with recommendations for improvement against best practice. These are set out in the appendices to this report, and we encourage Council to perform its own risk assessment on the issues raised along with those reported on by the external auditors. This should drive a remedial program with potential benefits in corporate governance as well as external audit.
- 12.2 It is apparent that there is a degree of disquiet amongst stakeholders at various levels of Council that give rise to concerns of impropriety, financial mismanagement and, at worst, fraud and corruption.
- 12.3 Our procedures revealed no obvious signs of the latter, however it should be borne in mind this has been an exploratory exercise only, designed to reveal areas of high risk that may warrant revisitation or a more in-depth investigation.
- 12.4 Those areas may potentially include:
- 12.4.1 Progress against the audit management reports and governance letters of external auditors
 - 12.4.2 Progress against selected performance criteria, such as the FFF assessments
 - 12.4.3 Probity enquiry into specific projects of Council, such as waste management and major facilities investment
 - 12.4.4 Review into internal management reporting including cost-capturing, budgeting, forecasting and financial modelling
 - 12.4.5 Review of asset management practices such as light fleet, major plant or even departmental structure and function
 - 12.4.6 Comprehensive assessment of finance department policy procedures and practices
- 12.5 Other areas of concern addressed in this report may potentially be attributable to policy and politics as opposed to procedure. As such they do not fall within the scope of this engagement.
- 12.6 It was noted that an Internal Audit Committee function has been approved for reintroduction, and we are strongly in support of that initiative. It also accords with Internal Audit Guidelines under Section 23A of the Local Government Act 1993 issued by the NSW Department of Premier & Cabinet, Division of Local Government.
- 12.7 The NSW Auditor-General has issued a Better Practice Guide in the form of a Fraud Control Improvement Kit, and Council may give consideration as to whether that tool may be adopted and deployed.

13. Declaration

REPORT OF FACTUAL FINDINGS

To Warrumbungle Shire Council

We have performed the procedures agreed with you to report factual findings for the purpose of assisting you in identifying, in combination with other information obtained by you, areas of risk that may give rise to fraud, misappropriation or impropriety in the disbursement of Council finances over the review period. The procedures performed are detailed in the terms of the engagement of 13 April 2018 and described at Section 2 of this report.

Those Charged with Governance's Responsibility for the Procedures Agreed

The elected members are responsible for the adequacy or otherwise of the procedures agreed to be performed by us. You are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the subject matter.

Assurance Practitioner's Responsibility

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We conducted the engagement in accordance with Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings. We have complied with ethical requirements equivalent to those applicable to Other Assurance Engagements, including independence.

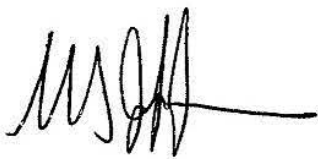
Because the agreed-upon procedures do not constitute either a reasonable or limited assurance engagement in accordance with AUASB standards, we do not express any conclusion and provide no assurance on the fraud risk environment or profile of Council. Had we performed additional procedures or had we performed an audit or a review of the fraud risk environment or profile of Council in accordance with AUASB standards, other matters might have come to our attention that would have been reported to you.

Factual Findings

The procedures were performed solely to assist you in identifying, in combination with other information obtained by you, areas of risk that may give rise to fraud, misappropriation or impropriety in the disbursement of Council finances over the review period. The procedures performed and the factual findings obtained are detailed in the body and appendices to the forensic report.

Restriction on Use of Report

This report is intended solely for the use of Council for the purpose set out above. As the intended user of our report, it is for you and other intended users to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. As required by ASRS 4400, use of this report is restricted to those parties that have agreed the procedures to be performed with us in the terms of the engagement (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than Council for any consequences of reliance on this report for any purpose.

A handwritten signature in black ink, appearing to be 'MSA', with a long horizontal line extending to the right.

6 July 2018

Moore Stephens (SA) Pty Ltd
Level 2, 180 Flinders Street
ADELAIDE SA 5000

Appendices

- 1 Credit card testing exceptions
- 2 Procurement testing exceptions
- 3 Tendering testing exceptions
- 4 Employee entitlements testing exceptions
- 5 Duplicate creditor records
- 6 Supplier cards with multiple ABN's
- 7 Duplicate bank account testing
- 8 Duplicate employee records
- 9 Bank details repetition

Appendix 1

Credit cards testing exceptions

Exceptions	Implication	Best practice
It was noted that the Credit Card Authority Form for [REDACTED] and [REDACTED] could not be located.	<p>The absence of signed credit card authority forms leaves no audit trail to be followed to substantiate the authorisation of the card being issued and to whom.</p> <p>This increases the risk of credit card misuse/misconduct.</p>	It is recommended that signed authority forms for all credit cards are retained.
It was noted that one invoice for a purchase made by [REDACTED] was unable to be provided.	<p>Without invoices to substantiate purchases it is difficult to determine if credit card expenses are for a legitimate business purpose.</p> <p>This increases the risk of possible fraudulent activities.</p>	Invoices for all purchases made by Council should be retained not only for audit purposes but also for tax purposes i.e. GST etc.
It was noted that the GM and the Mayor have historically approved each other's credit card useage.	<p>Permits collusive behaviour and ineffectiveness of the control.</p> <p>This increases the risk of possible fraudulent activities.</p>	<p>Approval of credit card useage is not delegated to a reporting line subordinate.</p> <p>The Mayor's credit card useage is approved at regular Council meetings.</p>
It was noted that one credit card user, the CFO, was not included on the delegated credit card holders list.	Council credit cards may be supplied to unauthorised staff.	The delegated credit card holders list is frequently checked as part of monthly statements approval.

Appendix 1

Credit cards testing exceptions

Exceptions	Implication	Best practice
It was noted that in some instances credit card statement approvers did not sign-off in a timely manner or at all.	Failure of the validation process. This increases the risk of possible fraudulent activities.	Internal audit procedures to monitor compliance with policies, procedures and practices are likely to minimise exceptions of this nature.

Appendix 2

Procurement testing exceptions

Exceptions	Implication	Best practice
<p>It was noted that Creditor Details Forms for the suppliers listed below could not be located and provided:</p> <ul style="list-style-type: none"> • [REDACTED] • [REDACTED] • [REDACTED] <p>We were advised the records have gone missing from archives.</p>	<p>The absence of supplier detail forms for these suppliers didn't allow us to test that appropriate checks on the supplier were performed by Council staff at the time the supplier was set-up in Civica.</p> <p>This enhances the risk that supplier details such as ABN and bank account details etc. are incorrect which can lead to ghost suppliers being paid. It also increases the risk of fraudulent or corrupt transactions being processed.</p>	<p>It is recommended that all supplier detail forms are retained in a safe location.</p>

Appendix 3

Tendering testing exceptions

Exceptions	Implication	Best practice
<p>It was noted that no central tender register is maintained of all active contracts greater than \$150,000 as required by the Local Government Act.</p>	<p>Other than non-compliance with the Local Government Act there is increased risk of the Council not being aware of all contracts, both new and existing.</p> <p>There is also the risk that rights and obligations, commitments and/or contingencies are not appropriately recorded in the financial statements.</p>	<p>It is recommended that the Council maintain a central tender register that captures all contracts over the threshold of \$150,000.</p>
<p>It was noted that [REDACTED] invoice number: [REDACTED] for \$270,050 was approved by [REDACTED]</p> <p>Given the amount of the invoice is greater than \$150,000, per the Policy Delegations and Other Third Party Authority, only the GM can sign-off on invoices of this amount.</p> <p>At the time the GM, [REDACTED] was away however [REDACTED] was not the Acting General Manager at this time and did not have the delegation level to authorise this invoice.</p>	<p>Other than non-compliance with the policy, Council staff authorising invoices for which they do not have the appropriate authority to do so can lead to corrupt/fraudulent behaviour.</p> <p>There is also increased risk of outcomes and efficiencies not being achieved.</p>	<p>It is recommended that Council adhere to the delegation limits in place for approving invoices.</p> <p>We also recommend that the Policy Delegations and Other Third Party Authority levels are reviewed and updated where necessary.</p> <p>Delegation levels should also be communicated to Council staff to ensure correct personnel are approving invoices.</p>

Appendix 3

Tendering testing exceptions

Exceptions	Implication	Best practice
<p>Per the Procurement Policy and the Local Government Act 1993, expenditure exceeding \$150,000 should be put out to tender.</p> <p>It was noted that for seven suppliers who had performed works to the value of \$150,000 or more during the period 01/07/2016 - 30/06/2017, this work was not put out to tender. These suppliers were:</p> <ul style="list-style-type: none"> • [REDACTED] work totalled \$160,715.17 • [REDACTED] work totalled \$178,818.20 • [REDACTED] work totalled \$217,840.71 • [REDACTED] work totalled \$231,898 • [REDACTED] work totalled \$234,277.50 • [REDACTED] work totalled \$241,830.80 • [REDACTED] work totalled \$390,910.08 	<p>If there is no contract in place then the key rights and obligations that would normally protect Councils' interests are not enforceable.</p> <p>There is also increased risk of outcomes and efficiencies not being achieved. In the absence of a contract there is lack of transparency which increases the risk of unauthorised purchases/corruption or fraudulent behaviour and Council may not achieve value for money.</p> <p>Penalites may also apply for failure to comply with the Local Government Act 1993.</p>	<p>It is recommended that all preferred suppliers are put onto a Vendor Panel which will eliminate the requirement to put work out to tender when it reaches the \$150,000 threshold.</p> <p>For all work where a supplier is not on a vendor panel and the expenditure is expected to exceed \$150,000, the Council should put the work out to tender as required by the Local Government Act 1993.</p> <p>It is also recommended that the Procurement Policy is reviewed for Compliance with the Local Government Act 1993 and any changes required are made and communicated with staff.</p>

Appendix 4

Employee entitlements testing exceptions

Exceptions	Implication	Best practice
<p>It was noted that the GM is not required to fill in timesheets.</p> <p>It was noted there was one instance timesheets were not authorised by the responsible officer.</p> <p>It was noted there are instances that annual leave forms are missing. We also noted that there was one instance [REDACTED] (former GM) approved his own annual leave.</p>	<p>This can lead to recording of time not actually worked and inaccurate input of time.</p> <p>Inaccurate input of time worked may result in payroll errors due to underpayments or overpayments to employees.</p>	<p>We recommend that all staff are required to complete timesheets and/or leave forms, authorise and have them approved by their supervisor/manager.</p>

Appendix 4

Employee entitlements testing exceptions

Exceptions	Implication	Best practice
<p><u>System Access</u> It was noted that the CFO who has the authority to modify the access authority in the system is also one of the payment authorisers. The CFO advised he does not make any changes to Master files since he started.</p> <p>Non-IT staff have inappropriate access to create and amend user IDs in Civica. This allows non-IT staff the ability to bypass segregation of duties controls and delegations of authority. For example, the CFO has access to create and modify user access IDs in Civica.</p>	<p>The ability to create and amend user access rights could permit unauthorised transactions or activities for users beyond their job requirements.</p> <p>For example, through amending existing user rights or through the creation of multiple user IDs used by a single individual.</p>	<p>We understand this weakness has been addressed with an audit trail report being run and investigated by the payroll officer on a weekly basis and authorised by the HR manager.</p> <p>We recommend that:</p> <ul style="list-style-type: none"> • Council review its existing list of assigned IT access privileges for each staff member against their current role to ensure their access level assigned remains current and appropriate, taking corrective action as necessary. • Access to create and amend user IDs should be restricted to IT admin staff only.
<p>Timesheets input and checking are performed by the same person. This represents a lack of segregation of duties, with potential risk for error.</p>	<p>This can lead to recording of time not actually worked and inaccurate input of time.</p> <p>Inaccurate input of time worked may result in payroll errors due to underpayments or overpayments to employees.</p>	<p>Timesheet data entry and reconciliation to timesheets is performed by a staff member other than the data entry operator.</p>

Appendix 4

Employee entitlements testing exceptions

Exceptions	Implication	Best practice
<p>The individual employee bank account/individual employee list is not checked at payment process. Only the total payment is reconciled and checked when payment is processed.</p>	<p>Payroll disbursements are posted to either the wrong employee or fictitious employees.</p>	<p>Payees are identified on pay slips by employee number and name.</p> <p>Payrun EFT listings are reconciled to:</p> <ul style="list-style-type: none">• Net pay total of payroll journal• Number of employees paid• Listing received from Council's bank
<p><u>Lack of evidence of approval on superannuation</u></p> <p>There is no evidence of second review/approval on superannuation payments.</p> <p>There is no checking done by the finance department on individual employee payments.</p>	<p>Superannuation disbursements are posted to either the wrong employee or fictitious employees.</p>	<p>Independent review of proposed payments by an authorised officer prior to the payment being released.</p>

Appendix 4

Employee entitlements testing exceptions

Exceptions	Implication	Best practice
<p>There is no comparison of subsequent current employee listings made by an independent staff member to verify correctness.</p>	<p>Overpayment of superannuation to current or terminated employees.</p>	<p>We understand that subsequent payrun report will be reviewed and approved by the HR manager and department directors.</p> <p>We recommend that for better practice employees are made inactive in payroll records immediately upon termination.</p> <p>Comparison of subsequent current employee listings are made by an independent staff member to verify correctness.</p>
<p>There is no evidence of review on suspense accounts.</p>	<p>Potential risk of error and fraud.</p>	<p>We recommend that all payroll suspense accounts are reconciled and reviewed by management or other supervisory personnel on a timely basis.</p> <p>Transactions recorded in the payroll suspense accounts should be genuine suspense items; other items are investigated and resolved in a timely manner.</p>

Appendix 4

Employee entitlements testing exceptions

Exceptions	Implication	Best practice
<p><u>System Issue-</u> It was noted that the initial employee masterfile set up was incorrectly performed in 2015 when Civica was installed. Some staff members' leave entitlements and weekly working hours were incorrectly entered.</p> <p>Inconsistencies with the previous system (Practical) were noted in leave liability reports and leave registers due to the different days the reports were produced.</p> <p>The Retrospective Employees Leave Liability Report for 30 June 2017 from Civica does not agree with the previous Employees Leave Liability report generated as at 30 June 2017.</p> <p>There were inconsistencies noted with manual records maintained by payroll staff. These are kept through a lack of confidence in the setup of Civica by those staff.</p> <p>There were incidences noted of reports being adjusted outside of Civica.</p> <p>There is no evidence of review/check of discounted annual leave and long service leave calculations.</p>	<p>Errors in the recording and maintenance of employee entitlements.</p>	<p>We understand that the payroll officer and CFO have reviewed the system to correct set up.</p> <p>We recommend a Retrospective Employees Leave Liability report is generated subsequently to ensure the data is consistent.</p> <p>A reconciliation of all employee leave entitlements should be performed to ensure any errors are corrected in the system.</p> <p>An independent review on the discount report is performed and signed to ensure it is accurately calculated.</p>

Appendix 4

Employee entitlements testing exceptions

Exceptions	Implication	Best practice
<p>It was noted that there are instances of general journals not being independently reviewed/approved and no supporting documents are provided.</p>	<p>Increased risk that unauthorised or inaccurate general journals may be posted which could have an adverse financial impact on the Council.</p>	<p>We recommend that Council review its current process for the documented review of general journals. At a minimum, a general journal report should be run at the end of each month with supporting documentation attached. An appropriate employee independent of general journal processing should then review the journals and evidence their review with a formal sign-off.</p> <p>These reviews should focus on the size and routine of general journals posted for that period, including journals that are potentially incorrect or unusual. The reviewer should raise queries where appropriate.</p>

Appendix 6

Supplier cards with multiple ABNs

The following creditors had multiple ABNs recorded:

Creditor	Duplicate
[REDACTED]	2
[REDACTED]	2
[REDACTED]	3
[REDACTED]	2
[REDACTED]	2
[REDACTED]	2

Appendix 1

Credit cards testing exceptions

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
<p>It was noted that the Credit Card Authority Form for [REDACTED] and [REDACTED] [REDACTED] could not be located.</p>	<p>The absence of signed credit card authority forms leaves no audit trail to be followed to substantiate the authorisation of the card being issued and to whom.</p> <p>This increases the risk of credit card misuse / misconduct.</p>	<p>It is recommended that signed authority forms for all credit cards are retained.</p>	<p>Staff have been directed to ensure that:</p> <ul style="list-style-type: none">• Credit and / or Purchase Cards are not issued until an Authority Form has been signed.• Signed authority forms for all Credit and / or Purchase Cards are retained.• Signed Authority Forms for all Credit and / or Purchase Cards are kept in triplicate – one (1) original, one (1) in Council's records management system and one (1) in the employee's personnel file. <p>Random checks will be undertaken.</p>	<p>Our testing did not reveal any forms to be missing.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
<p>It was noted that one invoice for a purchase made by [REDACTED] was unable to be provided.</p>	<p>Without invoices to substantiate purchases it is difficult to determine if credit card expenses are for a legitimate business purpose. This increases the risk of possible fraudulent activities.</p>	<p>Invoices for all purchases made by Council should be retained not only for audit purposes but also for tax purposes ie. GST etc.</p>	<p>Staff have been directed to ensure that:</p> <ul style="list-style-type: none"> • Invoices for all purchases made by Council are retained and can be provided on request. • Invoices for all purchases on Credit and / or Purchase Cards are provided prior to the monthly statement being signed off by the person responsible for the card and their Supervisor. <p>Random checks will be undertaken.</p>	<p>Our testing did not identify any missing invoices.</p>
<p>It was noted that the GM and the Mayor have historically approved each other's credit card usage.</p>	<p>Permits collusive behaviour and ineffectiveness of the control. This increases the risk of possible fraudulent activities.</p>	<p>Approval of credit card usage is not delegated to a reporting line subordinate. The Mayor's credit card usage is approved at regular Council meetings.</p>	<ul style="list-style-type: none"> • Council has updated this process. • The General Manager's Credit and / or Purchase Card usage is approved by the 	<p>No exceptions noted. External audit sighted August 2018 minutes.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<p>Mayor.</p> <ul style="list-style-type: none"> The Mayor's Credit and / or Purchase Card usage is approved by the Councillors at the monthly Council Meeting. 	
<p>It was noted that one credit card user, the CFO, was not included on the delegated credit card holders list.</p>	<p>Council credit cards may be supplied to unauthorised staff.</p>	<p>The delegated credit card holders list is frequently checked as part of monthly statements approval.</p>	<ul style="list-style-type: none"> Staff have been directed to ensure that the delegated Credit and / or Purchase Card holders list is checked as part of the approval of monthly statements. The Chief Financial Officer will conduct random checks to ensure that the list is up to date at all times. 	<p>Could not be tested as improvements had not been implemented at time of audit.</p>
<p>It was noted that in some instances credit card statement approvers did not</p>	<p>Failure of the validation process. This increases the risk of</p>	<p>Internal audit procedures to monitor compliance with policies, procedures and</p>	<ul style="list-style-type: none"> Responsible staff have been directed to ensure that Credit 	<p>There are no internal audit functions at the time of the external audit visit.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
<p>sign-off in a timely manner or at all.</p>	<p>possible fraudulent activities.</p>	<p>practices are likely to minimise exceptions of this nature.</p>	<p>and / or Purchase Card Statements are signed-off in a timely manner.</p> <ul style="list-style-type: none"> • Credit and / or Purchase Card users are now provided with a date that the statement is due back. • If the statement is not provided by this date follow up will occur and if necessary non-compliance will be reported to the General Manager. 	

Appendix 2

Procurement testing exceptions

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
<p>It was noted that Creditor Details Forms for the suppliers listed below could not be located and provided:</p> <ul style="list-style-type: none"> • [REDACTED] • [REDACTED] • [REDACTED] <p>We were advised the records have gone missing from archives.</p>	<p>The absence of supplier detail forms for these suppliers didn't allow us to test that appropriate checks on the supplier were performed by Council staff at the time the supplier was set-up in Civica.</p> <p>This enhances the risk that supplier details such as ABN and bank account details etc. are incorrect which can lead to ghost suppliers being paid. It also increases the risk of fraudulent or corrupt transactions being processed.</p>	<p>It is recommended that all supplier detail forms are retained in a safe location.</p>	<ul style="list-style-type: none"> • Finance Staff have been instructed to conduct a review to ensure that all Creditors have current Creditor Details Forms. • Creditors identified as not having current forms will then be asked to complete new forms. • A report will be provided to the General Manager in relation to the number of creditors who did not have current Creditor Details Forms. • Finance Staff have determined a single safe location for the storage of these 	<p>External audit team tested a sample of 10 new creditors and changed creditor details forms and found no significant exceptions. External audit team's samples did not include the 3 creditors identified by the forensic audit.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<p>completed forms.</p> <ul style="list-style-type: none"> • Creditor Details Forms will also be provided to the Records Officer for entering in to Council's Records Management system so there is both a hard and soft copy record. • It has been discussed with Finance Staff that it is Council Policy to receive and retain the Creditor Details Forms and any instances of non-compliance are a breach of Council policy. 	

Appendix 3

Tendering testing exceptions

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
<p>It was noted that no central tender register is maintained of all active contracts greater than \$150,000 as required by the Local Government Act.</p>	<p>Other than non-compliance with the Local Government Act there is increased risk of the Council not being aware of all contracts, both new and existing.</p> <p>There is also the risk that rights and obligations, commitments and / or contingencies are not appropriately recorded in the financial statements.</p>	<p>It is recommended that the Council maintain a central tender register that captures all contracts over the threshold of \$150,000.</p>	<ul style="list-style-type: none"> • Council has developed a register of contracts that captures all contracts over \$150,000. This information has been captured for the period from 2010 till now. • The register of contracts also captures expenditure of over \$150,000 where there is no contract in place. • Staff have also completed forms that capture information required by GIPA in relation to these contracts. • This information is 	<p>It was noted that there was no central tender register for purchases over \$150,000.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<p>being finalised and will be uploaded to Council's website.</p> <ul style="list-style-type: none"> Staff will then finalise a process to ensure that the register is kept up to date. 	
<p>It was noted that [REDACTED] [REDACTED] invoice number: [REDACTED] for \$270,050 was approved by [REDACTED].</p> <p>Given the amount of the invoice is greater than \$150,000, per the Policy Delegations and Other Third Party Authority, only the GM can sign-off on invoices of this amount.</p> <p>At the time the GM, [REDACTED] was away however [REDACTED] was not the Acting General Manager at this time and did not have the delegation level to</p>	<p>Other than non-compliance with the policy, Council staff authorising invoices for which they do not have the appropriate authority to do so can lead to corrupt / fraudulent behaviour.</p> <p>There is also increased risk of outcomes and efficiencies not being achieved.</p>	<p>It is recommended that Council adhere to the delegation limits in place for approving invoices.</p> <p>We also recommend that the Policy Delegations and Other Third Party Authority levels are reviewed and updated where necessary.</p> <p>Delegation levels should also be communicated to Council staff to ensure correct personnel are approving invoices.</p>	<ul style="list-style-type: none"> Delegations have been reviewed by the Executive Leadership Team and new delegation limits communicated to relevant staff. The delegations process has been reviewed and streamlined. Staff have been reminded of their responsibilities in regard to being aware of delegations, as well as acting within their 	<p>The external audit team noted that the delegations functionality in Civica has been resolved.</p> <p>A sample of 5 delegations were tested between authority and the delegation policy and no exceptions identified.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
authorise this invoice.			<p>delegations. There have been multiple communications in relation to this.</p> <ul style="list-style-type: none"> • Purchasing processes have also been reviewed and reinforced to ensure that people are operating within their delegations through this process and not committing Council to expenditure which is outside their delegations. • Issues of non-compliance are being reported to the relevant Director. 	
Per the Procurement Policy and the Local Government Act 1993, expenditure exceeding \$150,000 should	If there is no contract in place then the key rights and obligations that would normally protect Councils' interests are	It is recommended that all preferred suppliers are put onto a Vendor Panel which will eliminate the	<ul style="list-style-type: none"> • Council has begun the development of a Vendor Panel. • Further 	External Audit identified similar issues as part of the Audit for the year ended 30 June 2017 and reported this

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
<p>be put out to tender.</p> <p>It was noted that for seven suppliers who had performed works to the value of \$150,000 or more during the period 01/07/2016 - 30/06/2017, this work was not put out to tender. These suppliers were:</p> <ul style="list-style-type: none"> • [REDACTED] work totalled \$160,715.17 • [REDACTED] work totalled \$178,818.20 • [REDACTED] work totalled \$217,840.71 • [REDACTED] work totalled \$231,898 • [REDACTED] work totalled \$234,277.50 • [REDACTED] work totalled \$241,830.80 • [REDACTED] work totalled \$390,910.08 	<p>not enforceable.</p> <p>There is also increased risk of outcomes and efficiencies not being achieved. In the absence of a contract there is lack of transparency which increases the risk of unauthorised purchases/corruption or fraudulent behaviour and Council may not achieve value for money.</p> <p>Penalites may also apply for failure to comply with the Local Government Act 1993.</p>	<p>requirement to put work out to tender when it reaches the \$150,000 threshold.</p> <p>For all work where a supplier is not on a vendor panel and the expenditure is expected to exceed \$150,000, the Council should put the work out to tender as required by the Local Government Act 1993.</p> <p>It is also recommended that the Procurement Policy is reviewed for Compliance with the Local Government Act 1993 and any changes required are made and communicated with staff.</p>	<p>development needs to take place, especially in relation to businesses who initially do not have projected expenditure of more than \$150,000 but throughout the year accrue this amount of expenditure.</p> <ul style="list-style-type: none"> • Council has also commenced a review of purchasing practices, procedures and policies. 	<p>in the management letter.</p> <p>The testing of compliance with the procurement policy for the year ended 30 June 2018 did not identify any reportable matters.</p>

Appendix 4

Employee entitlements testing exceptions

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
<p>System Access</p> <p>It was noted that the CFO who has the authority to modify the access authority in the system is also one of the payment authorisers. The CFO advised he does not make any changes to Master files since he started.</p> <p>Non-IT staff have inappropriate access to create and amend user IDs in Civica. This allows non-IT staff the ability to bypass segregation of duties controls and delegations of authority. For example, the CFO has access to create and modify user access IDs in Civica.</p>	<p>The ability to create and amend user access rights could permit unauthorised transactions or activities for users beyond their job requirements.</p> <p>For example, through amending existing user rights or through the creation of multiple user IDs used by a single individual.</p>	<p>We understand this weakness has been addressed with an audit trail report being run and investigated by the payroll officer on a weekly basis and authorised by the HR manager.</p> <p>We recommend that:</p> <ul style="list-style-type: none"> • Council review its existing list of assigned IT access privileges for each staff member against their current role to ensure their access level assigned remains current and appropriate, taking corrective action as necessary. • Access to create and amend user IDs should be restricted to IT admin staff only. 	<ul style="list-style-type: none"> • Staff have commenced a review of assigned IT access privileges for each staff member against their current role to ensure their access level assigned remains current and appropriate, taking corrective action as necessary. • A number of conflicts have been identified and addressed. Some of this work has been necessitated by changes in personnel. • Access to create and amend user IDs will be restricted to IT 	<p>External audit noted the existence of the audit trail report.</p> <p>Management advised it is in the process of being addressed with Tamworth Council IT Firm.</p> <p>Management advised it is in process of being addressed.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<p>staff only once an IT staff member is employed by Council. The IT staff member will have not authority in relation to payments.</p> <ul style="list-style-type: none"> • In the interim the Payroll Officer is creating software privileges per the identified privileges for the role. Any exceptions have to be authorised by the Director or General Manager in writing. All setup and amendments are verified by Manager Organisation Development. • An audit trail report is also being run on a weekly basis. The 	

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<p>report is investigated by the Payroll Officer and authorised by the Manager Organisation Development.</p>	
<p>Timesheets input and checking are performed by the same person. This represents a lack of segregation of duties, with potential risk for error.</p>	<p>This can lead to recording of time not actually worked and inaccurate input of time. Inaccurate input of time worked may result in payroll errors due to underpayments or overpayments to employees.</p>	<p>Timesheet data entry and reconciliation to timesheets is performed by a staff member other than the data entry operator.</p>	<ul style="list-style-type: none"> Integration of payroll duties in to an existing position in Organisation Development or employment of part-time Payroll Data Entry Officer to enter timesheet data is being considered in the new organisational structure. The new organisational structure will support the segregation of duties between data entry 	<p>External audit testing of timesheets did not note any significant exceptions.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
<p>The individual employee bank account / individual employee list is not checked at payment process. Only the total payment is reconciled and checked when payment is processed.</p>	<p>Payroll disbursements are posted to either the wrong employee or fictitious employees.</p>	<p>Payees are identified on pay slips by employee number and name Payrun EFT listings are reconciled to:</p> <ul style="list-style-type: none"> • Net pay total of payroll journal • Number of employees paid • Listing received from Council's bank 	<p>and checking.</p> <ul style="list-style-type: none"> • Payees are identified on pay slips by employee number and name. • Payrun EFT listings are reconciled to: <ul style="list-style-type: none"> – Net pay total of payroll journal – Number of employees paid – Listing received from Council's bank • These actions are completed by Manager Organisation Development who does not input the timesheets. 	<p>Our testing of a sample did not identify any significant exceptions.</p>
<p><u>Lack of evidence of approval on superannuation</u> There is no evidence of second review / approval on superannuation payments.</p>	<p>Superannuation disbursements are posted to either the wrong employee or fictitious employees.</p>	<p>Independent review of proposed payments by an authorised officer prior to the payment being released.</p>	<p>Staff have been instructed to ensure that one-off superannuation payments and new</p>	<p>External audit testing did not identify any lack of evidence of approvals.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
There is no checking done by the finance department on individual employee payments.			superannuation set-ups are checked, signed and dated by an independent person, ie. the Manager Organisation Development.	
There is no comparison of subsequent employee listings made by an independent staff member to verify correctness.	Overpayment of superannuation to current or terminated employees.	We understand that subsequent payrun report will be reviewed and approved by the HR manager and department directors. We recommend that for better practice employees are made inactive in payroll records immediately upon termination. Comparison of subsequent current employee listings are made by an independent staff member to verify correctness.	<ul style="list-style-type: none"> • Staff have been instructed to ensure that employees are made inactive in payroll records immediately upon termination. • Evidence of termination is to be provided to the Manager Organisation Development on the termination date. • This evidence will be included in the employee's personnel file so termination dates 	Testing of terminated employees did not identify any significant exceptions.

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<p>can be spot checked if required.</p> <ul style="list-style-type: none"> Staff have also been instructed to ensure that comparison of subsequent current employee listings are made by an independent staff member, ie. the Manager Organisation Development, to verify correctness. 	
<p>There is no evidence of review on suspense accounts.</p>	<p>Potential risk of error and fraud.</p>	<p>We recommend that all payroll suspense accounts are reconciled and reviewed by management or other supervisory personnel on a timely basis.</p> <p>Transactions recorded in the payroll suspense accounts should be genuine suspense items; other items are investigated and resolved in a timely manner.</p>	<ul style="list-style-type: none"> Staff have been instructed to ensure that payroll suspense accounts are reconciled and reviewed by management or other supervisory personnel on a timely basis. Staff have also been instructed to ensure 	<p>The suspense accounts were reviewed as part of the completion of year end.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<p>that transactions recorded in the payroll suspense accounts are regularly reviewed to ensure they are genuine suspense items and any other items are investigated and resolved in a timely manner.</p> <ul style="list-style-type: none"> As a further check, the Director Corporate and Community Services is required to report to the General Manager on a monthly basis in relation to reconciliation of the suspense accounts. 	
<p><u>System Issue-</u> It was noted that the initial employee master file set up</p>	<p>Errors in the recording and maintenance of employee entitlements.</p>	<p>We understand that the payroll officer and CFO have reviewed the system to</p>	<ul style="list-style-type: none"> Staff have been instructed to implement the 	<p>The external audit team identified errors in employee leave entitlements.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
<p>was incorrectly performed in 2015 when Civica was installed. Some staff members' leave entitlements and weekly working hours were incorrectly entered.</p> <p>Inconsistencies with the previous system (Practical) were noted in leave liability reports and leave registers due to the different days the reports were produced.</p> <p>The Retrospective Employees Leave Liability Report for 30 June 2017 from Civica does not agree with the previous Employees Leave Liability report generated as at 30 June 2017.</p> <p>There were inconsistencies noted with manual records maintained by payroll staff. These are kept through a lack of confidence in the setup of Civica by those staff.</p> <p>There were incidences noted</p>		<p>correct set up.</p> <p>We recommend a Retrospective Employees Leave Liability report is generated subsequently to ensure the data is consistent.</p> <p>A reconciliation of all employee leave entitlements should be performed to ensure any errors are corrected in the system.</p> <p>An independent review on the discount report is performed and signed to ensure it is accurately calculated.</p>	<p>recommendations and:</p> <ul style="list-style-type: none"> – Generate a Retrospective Employees Leave Liability Report to ensure the data is consistent. – Perform a reconciliation of all employee leave entitlements to ensure any errors are corrected in the system. – Conduct an independent review on the discount report to ensure it is accurately calculated. <p>This process has been</p>	

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
<p>of reports being adjusted outside of Civica.</p> <p>There is no evidence of review / check of discounted annual leave and long service leave calculations.</p>			<p>commenced.</p>	
<p>It was noted that there are instances of general journals not being independently reviewed / approved and no supporting documents are provided.</p>	<p>Increased risk that unauthorised or inaccurate general journals may be posted which could have an adverse financial impact on the Council.</p>	<p>We recommend that Council review its current process for the documented review of general journals. At a minimum, a general journal report should be run at the end of each month with supporting documentation attached. An appropriate employee independent of general journal processing should then review the journals and evidence their review with a formal sign-off. These reviews should focus on the size and routine of general journals posted for that period, including journals that are potentially incorrect or unusual. The reviewer</p>	<ul style="list-style-type: none"> • Staff have conducted a review of the processes in relation to approval of journals. • The process has been updated to ensure that all journals have at least two (2) signatures on them, including one (1) from a senior member of staff, no matter who is requesting it. • Further consideration needs to be given regarding running 	<p>Management reviewed the journals.</p>

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
		should raise queries where appropriate.	monthly reports due to the resourcing required, including having it reviewed by an employee independent of the process. There is limited capacity within the finance team and having someone with these skills that is independent of the process may not be possible.	

Appendix 5

Duplicate creditor records

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
A number of creditors had multiple records.			<ul style="list-style-type: none">• Staff were instructed to review the list of creditors with multiple records.• The list of creditors with multiple records has been reviewed.• The review reinforced that some creditors, for example Australia Post, require multiple accounts, and therefore multiple records.• It was also reinforced that other organisations may also use franchises so separate ABN's and bank accounts are required although the trading name may be almost	

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<p>identical.</p> <ul style="list-style-type: none"> • Duplicate accounts that were found have been rectified. • If instances occur in the future these will also be rectified. • Long term – the implementation of EFTsure will help with ensuring Council is complying with best practice in relation to this. 	

Appendix 6

Supplier cards with multiple ABN's

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
A number of creditors had multiple ABNs recorded.			<ul style="list-style-type: none">• Staff were instructed to review the list of supplier cards with multiple ABN's.• The list of supplier cards with multiple ABN's has been reviewed.• Supplier cards that were found to have multiple ABN's have been fixed.• If instances occur or are found in the future they will also be rectified.• Long term – the implementation of EFTsure will help with ensuring Council is complying with best practice in relation to this.	

Appendix 7

Duplicate bank account testing

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
A number of creditors had multiple bank accounts recorded.			<ul style="list-style-type: none">• The list of creditors with multiple bank accounts was reviewed.• Some creditors, for example Australia Post, require multiple bank accounts.• Other organisations may also use franchises so separate ABN's and bank accounts are required although the trading name may be almost identical.• Creditors that were found to have multiple bank accounts in instances where they shouldn't have been rectified.	

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<ul style="list-style-type: none"> • If instances occur or are discovered in the future these will also be rectified. • Long term – the implementation of EFTsure will help with ensuring Council is complying with best practice in relation to this. 	

Appendix 8**Duplicate employee records**

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
A number of employees had multiple records.			<ul style="list-style-type: none">• Staff reviewed this exception and have fed back that the multiple numbers reflect different employment with Council and only one (1) number is open at a time.• An employee may have worked in a number of different roles with Council, or may work in different roles during the year, including casual / temporary / permanent indoor / permanent outdoor / funded.• Different areas of Council have different allocations of employee	

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<p>numbers therefore staff may have, or have had different numbers.</p> <ul style="list-style-type: none"> • The list provided has been reviewed and there are no concerns that there are duplicate records that are not warranted. • Long term – Council is considering implementation of more sophisticated human resources software that may be able to address this issue. 	

Appendix 9

Bank details repetition

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
A list of people who were listed as both employees and suppliers was supplied.			<ul style="list-style-type: none">• Staff were instructed to investigate and provide advice in relation to this exception.• Staff have advised that this situation is unavoidable as someone can be both Council's employee as well as having a payable / receivable account with Council.• For example, if an employee orders uniforms and the amount is higher than their allocation from Council then they have an account with Council.• Another example is if an employee has a	

Exceptions	Implication	Best practice	Staff Action	External Audit Observations
			<p>property paying rates / fees to Council then it goes to their account receivable record.</p> <ul style="list-style-type: none">• The advice provided indicates that some staff will always be suppliers and employees.	