



City of Nedlands

Minutes

Audit and Risk Committee Meeting

3 September 2015

ATTENTION

These minutes are subject to confirmation

This is a committee which has only made recommendations to Council. No action should be taken on any recommendation contained in these Minutes. The Council resolution pertaining to an item will be made at the Ordinary Council Meeting next following this meeting.

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City of Nedlands

Minutes of a meeting of the Audit and Risk Committee held at the City of Nedlands in the Council Meeting Room at 71 Stirling Hwy, Nedlands on Thursday 3 September 2015 at 6.00 pm.

Declaration of Opening

The Presiding Member declared the meeting open at 6.10 pm and drew attention to the disclaimer below.

Present and Apologies and Leave Of Absence (Previously Approved)

Committee	Councillor I S Argyle	(Presiding Member/ Dalkeith Ward)
Members	His Worship the Mayor Councillor McManus	R M Hipkins Coastal Districts Ward
Staff	Mr G Trevaskis Mr M Cole Mr K Chua	Chief Executive Officer Director Corporate & Strategy Manager Finance
Internal Auditors - BDO	Mr W Basford Mr A Hillbeck	Partner Risk Advisory Principal, Advisory Risk
Press	Nil.	
Leave of Absence	Nil.	
Apologies	Councillor T James Councillor B Hodsdon Ken Eastwood	Melvista Ward Hollywood Ward Community Member

Disclaimer

Members of the public who attend Council meetings should not act immediately on anything they hear at the meetings, without first seeking clarification of Council's position. For example by reference to the confirmed Minutes of Council meeting. Members of the public are also advised to wait for written advice from the Council prior to taking action on any matter that they may have before Council.

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1. Public Question Time

There were no public questions received.

2. Addresses by Members of the Public (only for items listed on the agenda)

There were no addresses by members of the public.

3. Disclosures of Financial Interest

There were no disclosures of financial interests.

4. Disclosures of Interests Affecting Impartiality

There were no disclosures of financial interests.

5. Declarations by Members That They Have Not Given Due Consideration to Papers

There were no declarations by members received.

6. Confirmation of Minutes

6.1 Audit and Risk Committee Meeting 23 April 2015

The minutes of the Audit and Risk Committee held 3 March 2015 are to be confirmed.

Moved – Councillor McManus
Seconded – Mayor Hipkins

The Minutes of the Audit and Risk Committee held 23 April 2015 are confirmed

CARRIED UNANIMOUSLY 3/-

7. Items for Discussion

Note: Regulation 11(da) of the *Local Government (Administration) Regulations 1996* requires written reasons for each decision made at the meeting that is significantly different from the relevant written recommendation of a committee or an employee as defined in section 5.70, but not a decision to only note the matter or to return the recommendation for further consideration.

7.1 MACRI PARTNERS – EXTERNAL AUDIT PLAN

The Director Corporate and Strategy spoke briefly to the External Audit Plan, noting that Mr A Macri and Mr M Gudka from Macri Partners were apologies for this meeting. The Director advised that Mr Macri would be able to address any questions when the final draft of the Annual Financial Statements were presented to the Audit and Risk Committee in October 2015.

The recommendation was then put to the meeting.

Regulation 11(da) – Not Applicable - Recommendation Adopted.

Moved – Mayor Hipkins

Seconded – Councillor McManus

Recommendation to Committee / Council

The Audit and Risk Committee receives the External Audit Plan for the year ended 30 June 2015.

CARRIED UNANIMOUSLY 3/-

Background

Macri Partners are the City's appointed Auditors in relation to the statutory audit for the year ended 30 June 2015.

As part of the statutory audit, Macri Partners have provided an External Audit Plan. The plan has been prepared to inform the officers and the Audit and Risk Committee of the City of Nedlands about Macri Partners responsibilities as external auditors and how Macri Partners plan to discharge them.

The plan focuses:

- Documenting the audit approach, including:
 - The audit process
 - Materiality
 - Approach to auditing key financial statement risk issues; and
 - Completion
- Presenting the audit engagement team
- Highlighting relevant independence and governance matters
- Providing a preliminary assessment of timing.

The External Audit Plan is presented to the Audit and Risk Committee for their information.

Recommendation to Committee / Council

The Audit and Risk Committee receives the External Audit Plan for the year ended 30 June 2015.

Attachment

1. Macri Partners - External Audit Plan for year ended 30 June 2015



Certified Practising Accountants



City of Nedlands

External Audit Plan For the Year Ending 30 June 2015

20 May 2015

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1. Purpose of the Audit

The purpose of this audit plan is to summarise our external audit approach in relation to the statutory audit of the City of Nedlands for the financial year ending 30 June 2015.

Our Audit Plan has been prepared to inform the officers and the Audit Committee of City of Nedlands about our responsibilities as your external auditors and how we plan to discharge them.

The plan focuses on:

- Documenting our audit approach, including:
 - audit process;
 - materiality;
 - approach to auditing key financial statement risk issues; and
 - completion;
- Presenting our audit engagement team;
- Highlighting relevant independence and governance matters;
- Providing a preliminary assessment of timing;

Our audit approach is focused on assessing and responding to the risk of misstatement in the financial statements.

We are committed to audit quality and the requirements of independence based on Macri Partners' and the accounting profession's strict rules and policies. We have made our initial assessment of potential threats to independence and have adopted appropriately robust safeguards to address those risks and protect independence.

2. Scope of the Audit

We will conduct an independent audit of the financial statements in order to express an opinion on it to the ratepayers of the City of Nedlands.

Our audit will be conducted in accordance with Australian Auditing Standards with the objective of reducing the level of material misstatement in the financial statements to an acceptably low level. These standards have been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2014/15 accounts.

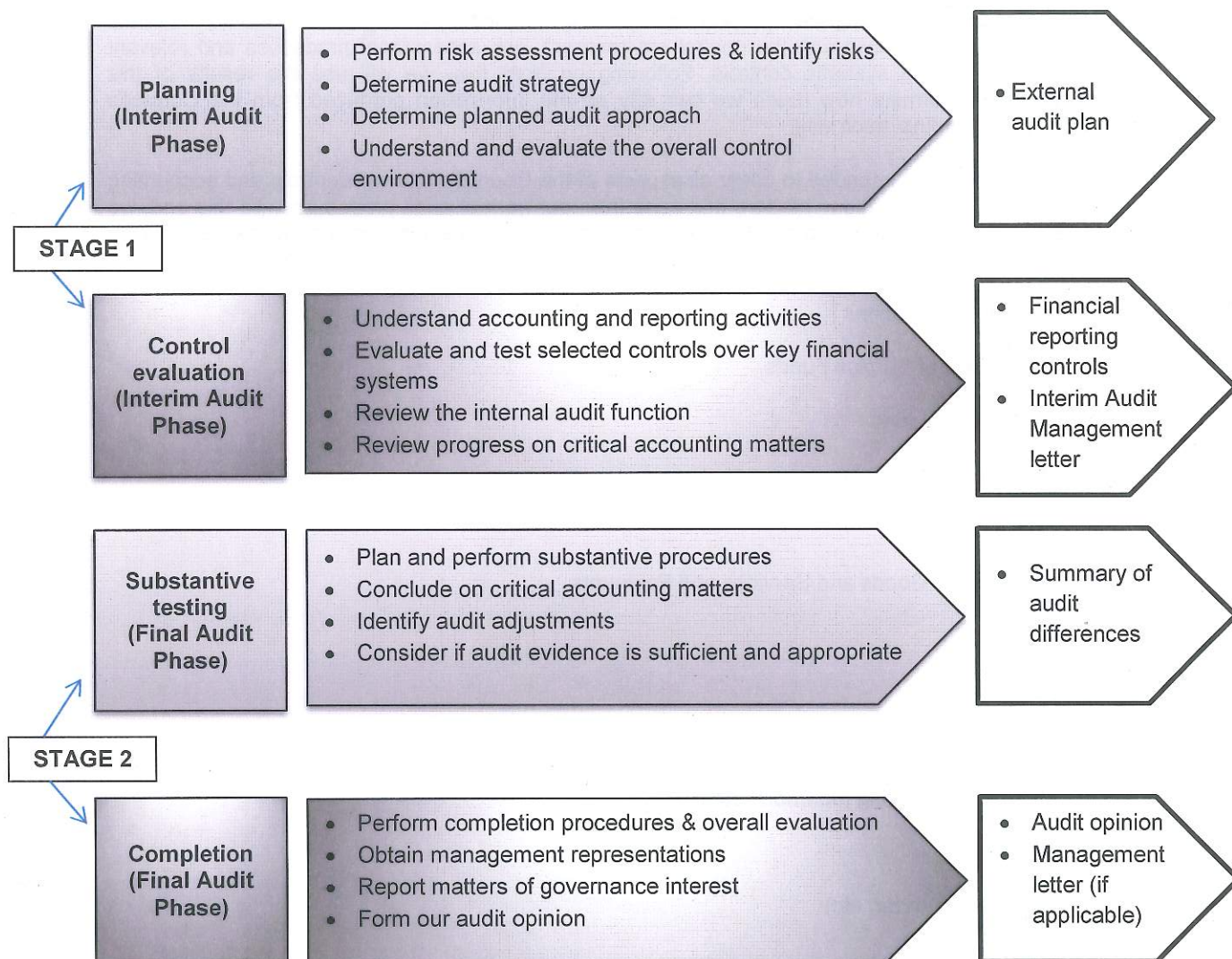
We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

3. Financial Reporting Responsibilities

Management	External Audit	Audit Committee
<ul style="list-style-type: none"> • Prepare financial statements and notes in accordance with Australian Accounting Standards, Local Government Act 1995 (as amended) and Regulations under the Act • Design, implement and maintain effective internal control over financial reporting processes • Risk management • Exercise sound judgement in selecting and applying critical accounting policies • Safeguard assets • Prevent, detect and correct errors • Prevent and detect fraud • Provide representations to external auditors • Assess quantitative and qualitative impact of misstatements discovered during the audit on fair presentation of the financial statements • Confirm the effective operations of financial reporting controls and disclosures in the annual financial statements 	<ul style="list-style-type: none"> • Conduct audit in accordance with professional standards and applicable financial reporting framework (i.e. Auditing Standards and Australian Accounting Standards) • Express an opinion on whether the financial statements present a true and fair view in accordance with Australian Accounting Standards, Local Government Act 1995 (as amended) and Regulations under the Act • Plan and perform the audit to obtain reasonable assurance (not absolute assurance) as to whether the accounts are free of material misstatements, whether caused by error or fraud • Maintain audit independence 	<ul style="list-style-type: none"> • Create a culture of honesty and ethical behaviour; set the proper tone and emphasise fraud prevention • Oversee management, including ensuring that management establishes and maintains internal control to provide reasonable assurance regarding integrity and reliability of financial reporting • Oversee management activities which ensure appropriate risk management and controls are in place for monitoring risk and compliance with policies, procedures and laws • Review the Council's performance • Liaise with the external auditors to facilitate external audit • Review annual financial statements and recommend approval to the Council

4. Audit Approach

Our objective is to provide an independent auditor's opinion on the financial report of the City of Nedlands for the year ending 30 June 2015. Our audit methodology is split into two stages and is applied uniquely to your circumstances. It involves the following activities.



Our audit approach is also based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

Our audit procedures will focus on those areas of the City of Nedlands' activities that are considered to represent the key audit risks identified in our planning memorandum and through discussions with management and the Audit Committee during the course of our audit.

(a) Interim Audit Coverage

Our examination of internal controls during interim audit for the year ending 30 June 2015 will be carried out for audit purposes designed primarily for the purpose of expressing an opinion on the financial statements of the City of Nedlands.

During our interim audit visit, we will focus on updating our understanding of the Council's internal controls. This includes reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. Following on from this, we will use the results of this assessment to determine how much we can rely on the information produced from the Council's systems during our final audit visit.

The interim audit is not intended to cover all aspects of the Council's internal controls and accounting systems and is limited to those matters that arise from our normal audit procedures. To this end, we have designed audit programs to carry out our interim audit and we summarise below the areas which we normally cover:

- Bank Reconciliations
- Investment of Surplus Funds
- Rates / ESL Levy
- Receipting
- Sundry Debtors
- Purchase of Goods and Services and Payments
- Creditors
- Payroll
- Fixed Assets (Property, Plant and Equipment and Infrastructure)
- General Accounting (Journals, etc.)
- IT Controls
- Registers (Tender, etc)
- Minutes Review
- Other financial matters/issues requested by the management/audit committee
- Discuss progress on audit findings and recommendations reported by the Auditor in the previous:
 - interim audit management letter
 - final Audit Completion Report to the Audit Committee prior year management letter to check what action has been taken and audit implications.

Any significant issues arising during the course of the audit will be discussed and management report will be issued.

(b) Final Audit Coverage

During our final audit visit, we will focus on auditing the balances, disclosures and other information included in the Council's financial statements.

- Current Assets
 - Bank and investments
 - Receivables and prepayments
 - Inventories
- Non-Current Assets
 - Property, plant and equipment
 - Infrastructure and depreciation
 - Other receivables
- Liabilities (Current and non-current)
 - Creditors and accruals
 - Loan borrowings including new loans raised
 - Provision for employee entitlements
- Analytical Review of Budget vs Actual (Statement of Comprehensive Income)
- Statement of Cash Flows
- Rate Setting Statement
- Statement of Changes in Equity
- Accounting Policies and Notes to the Financial Statements
- Reserve Funds
- Contingent Liabilities
- Capital Commitments
- Financial Ratios
- Any other statutory obligations

5. Significant Risks Identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty".

In this section, we outline the significant risks of material misstatement which we have identified.

Focus Area	Financial Statement Impact	Planned Audit Approach
Infrastructure: Valuation	Valuation and accuracy of infrastructure asset classes	<ul style="list-style-type: none"> ➤ Review the basis of any asset valuations (at fair value) undertaken and in doing so consider: <ul style="list-style-type: none"> • the judgements, assumptions and data used; • the reasonableness of any estimation techniques applied; and • the appropriateness of valuations undertaken internally by management and/or expertise of your external valuer.

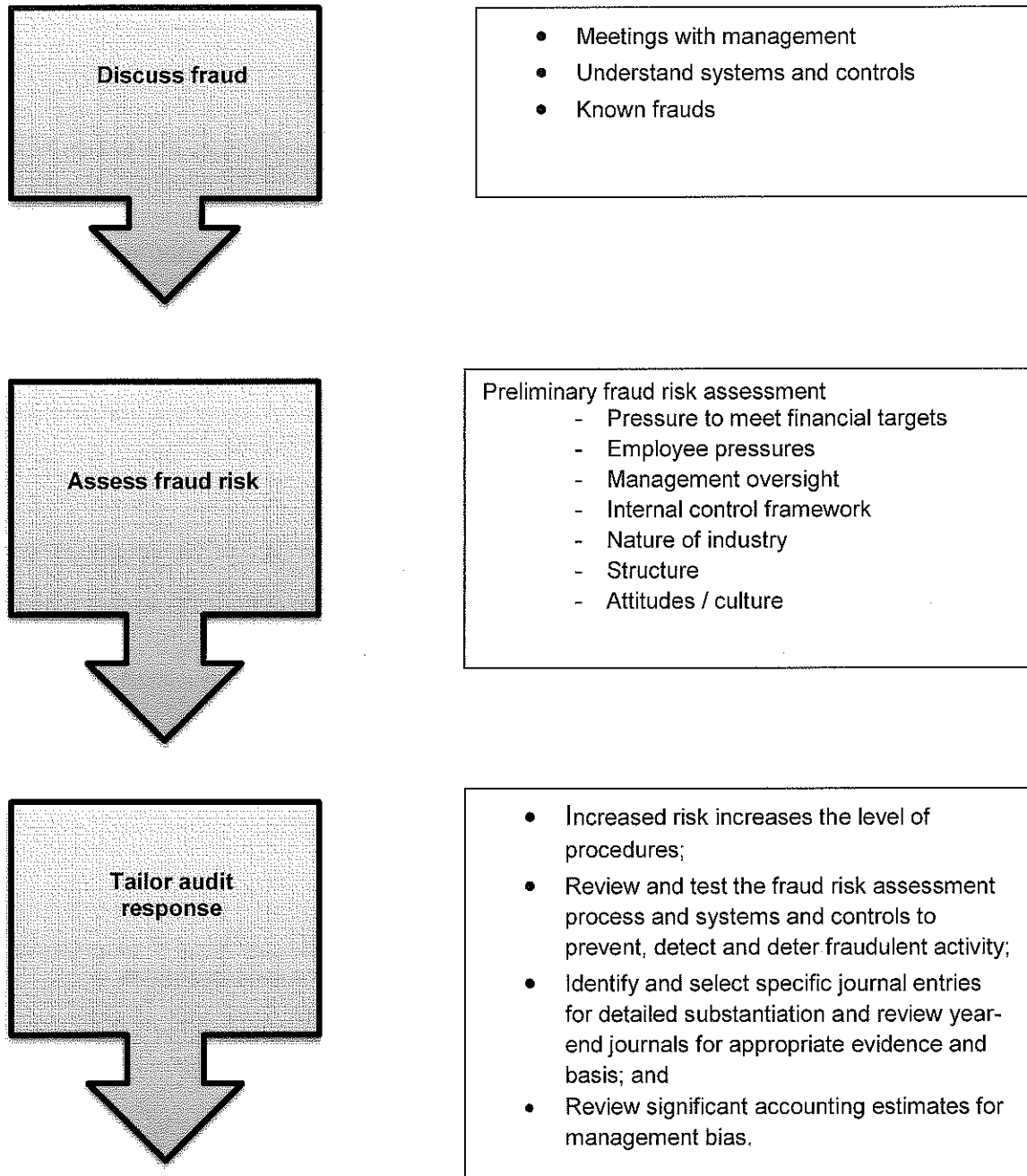
6. Other Risks

Focus Area	Financial Statement Impact	Planned Audit Approach
Revenue	Completeness and accuracy of Rates and service charges, Grant income, Fees and charges and Other revenue	<ul style="list-style-type: none"> ➤ Control testing on rates revenue, fees and charges and selected other revenue ➤ Test a sample of revenue transactions to supporting documentation ➤ Substantive analytical procedures
Expenses	Completeness of operating expenses	<ul style="list-style-type: none"> ➤ Review of expenditure incurring and approval processes ➤ Test a sample of expenditure transactions to supporting documentation ➤ Analytical review of operating expenditure
Payroll	Completeness of payroll expenses	<ul style="list-style-type: none"> ➤ Review and assess controls over the payroll process ➤ Analytical review of employee expenditure

Focus Area	Financial Statement Impact	Planned Audit Approach
Cash and Cash Equivalents, Investments	Existence, completeness and accuracy of cash and investment balances held with financial institutions	➤ Obtain external confirmations from the relevant financial institutions
Trade and Other Receivables	Existence, completeness and accuracy of receivables	➤ Vouching subsequent receipts for material balances ➤ Assess adequacy of provision for bad and doubtful debts
Property Plant and Equipment	<ul style="list-style-type: none"> • Impairment of property, plant and equipment • Appropriateness of useful lives • Accuracy of depreciation charge 	➤ Review of the reconciliation between asset register and general ledger ➤ Sample testing of acquisitions, disposals and write-offs ➤ Review of depreciation/amortisation charge for reasonableness
Trade and Other Payables	Existence, Completeness and accuracy of Sundry Creditors and Accrued Expenses	➤ Perform search for unrecorded liabilities ➤ Review of trade payables and accrued expenses ➤ Vouching significant balances
Borrowings	Existence, completeness and accuracy of borrowings with the Western Australian Treasury Corporation (WATC)	➤ Obtain external confirmations from the WATC
Provisions for Annual and Long Service Leave	Completeness, Accuracy and Valuation of Annual and Long Service Leave provisions	➤ Review calculation of annual leave and long service leave provisions

7. Impact of Fraud on the Financial Report

In accordance with Auditing Standard ASA 240 “The Auditor’s responsibility to consider fraud in an Audit of a Financial Report”, we will undertake specific procedures and report findings to the Council in respect of financial reporting fraud. The following diagram highlights the phases of our work on fraud.



8. Highlights – 2014/15 Financial Year

(a) Regulatory Environment

The second phase of fair value implementation was undertaken in the 2014 financial year with respect to Land and Buildings.

Following the timetable set in the Regulation 17A of the Local Government (Financial Management) Regulations 1996 and our discussion with management, the next class of assets to be revalued by the City are as follows:

Financial Year	Asset Group - Resources
2014/15	<p>INFRASTRUCTURE ASSETS</p> <ul style="list-style-type: none">• Roads (already at management valuation)• Drainage (already at management valuation) <p>The only remaining asset classes within infrastructure to be brought at fair value from the cost basis are:</p> <ul style="list-style-type: none">○ Footpaths○ Parks, Gardens and Reserves○ Street Furniture○ Reticulation

(b) Business Developments

On 30 July 2013, the Minister for Local Government formally announced the proposed Local Government Reform process. It was announced that the City of Nedlands was proposed to be merged with the City of Subiaco.

Local government reform was going to involve substantial business risk for the proposed new entity. Whilst a lot of work was done to prepare the City for reform, business as usual continued unhindered with the major area to suffer being innovation and new project delivery.

A revocation of the Governor's Orders for Metropolitan Local Government Reform was gazetted on 13 March 2015. The Minister for Local Government confirmed that the Metropolitan Reform Agenda was abandoned. Hence, the proposed amalgamation of the City of Nedlands with the City of Subiaco is currently not proceeding.

However, the State Government would still proceed with carrying out boundary adjustments in accordance with the City of Perth Act to expand the boundary of City of Perth to encompass QE11 Medical Centre, Hollywood Hospital and University of Western Australia which currently sit in City of Nedlands. The loss of these institutes would have a significant financial impact on the Council.

9. Materiality

Materiality drives the scope of our audit and is determined in accordance with the auditing standard requirements. We plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Type of Materiality	What is it used for?	Amount for 2015 Year
Overall materiality	Our overall materiality for the Council is calculated as a percentage of gross operating expenditure; this represents the level at which we would consider qualifying our audit opinion and is consistent with the prior year.	\$600,000 Approx. 2% of Total Budgeted Expenditure (2015 year) \$29.25m
Performance materiality	We determine performance materiality (from overall materiality) in order to assess risks of material misstatement and to determine the nature, timing and extent of audit procedures. This is the level to which we plan our audit work and identify significant accounts.	\$450,000 which has been set at 75% of Overall Materiality
Trivial error threshold	Auditing Standard ASA 450 <i>Evaluation of Misstatements Identified during the Audit</i> requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are those which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We determine a trivial error threshold (from materiality) in order to accumulate misstatements identified during the audit. We will not report misstatements below the threshold level unless we believe that the nature of the misstatement should be of concern. We will include a summary of any uncorrected misstatements identified during our audit in our year-end Audit Completion Report to the Audit Committee.	\$30,000 which has been set at 5% of overall materiality

We will reassess materiality based on year-end results or new information to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.

10. Audit Engagement Team

The audit team consists of the key members listed below:

Engagement Role	Name	Responsibilities
Audit Partner	Anthony Macri	Engagement leader responsible for the audit, including: <ul style="list-style-type: none"> liaison with the Chief Executive Officer and audit committee members signing of external audit opinion and other relevant reports
Senior Audit Manager	S Menon	Responsible for: <ul style="list-style-type: none"> overall quality control of the audit engagement overall review of audit outputs
Audit Manager	Mit Gudka	Responsible for: <ul style="list-style-type: none"> key contact for operational audit matters ensuring delivery to timetable management of targeted work

11. Communications Plan and Timetable

Auditing Standard **ASA 260 'Communication of audit matters with those charged with governance'** requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Audit Committee.

Output	Timing
Interim Audit Field Work	18 May 2015 – 20 May 2015 (Confirmed with Management)
Provide Interim Management Letter	On completion of interim audit and management responses received
Final Audit Field Work	September 2015 – November 2015 (Management to confirm)
Present the Audit Findings Report to the Audit Committee	September 2015 – November 2015 (Management to confirm)
Provide Audit Opinion on Financial Statements	September 2015 – November 2015 (Management to confirm)

12. Independence

Independence and Objectivity Confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the Audit Engagement Partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, this is the Audit Committee.

Confirmation Statement

We confirm that as of May 2015 in our professional judgement, Macri Partners is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Engagement Partner and audit staff is not impaired.

13. Disclaimer

This audit plan has been prepared for the Audit Committee and management of the City of Nedlands only. It should not be quoted or referred to, in whole or in part, without our prior written consent. No warranty is given to, and no liability will be accepted from, any party other than the City of Nedlands.

7.2 MACRI PARTNERS – INTERIM AUDIT FOR THE YEAR ENDED 30 JUNE 2015

The Director Corporate and Strategy referred to the comments from Mr K Eastwood on Sundry Debtors, in particular

- “- 4 instances out of a sample of 7 credit notes where the credit note request came forms were requested by and Authorised by the same officer; and
- 2 instances out of a sample of 7 credit notes where the credit note request forms were not authorised.

A discrepancy of 4 from a sample of 7 is of some concern and, to my mind, should have led to further investigation.”

The Director advised he had discussed this matter with Mr m Gudka from Macri Partners. Mr Gudka confirmed that the sample size and results were sufficient for the recommended action they suggested. A further investigation would have resulted in the same finding and recommendation. Mr Gudka added that there was no suggestion the credit notes were not appropriate.

Councillor McManus also expressed concern with the findings on non-compliance on pages 9 and 10 of the Interim Audit Report. The Director confirmed that the Manager of Finance had now put in place checklists for these processes to ensure the oversight does not happen again.

The recommendation was then put to the meeting.

Regulation 11(da) – Not Applicable - Recommendation Adopted.

Moved – Councillor McManus
Seconded – Mayor Hipkins

Recommendation to Committee / Council

The Audit and Risk Committee receives the Interim Audit report for the year ended 30 June 2015.

CARRIED UNANIMOUSLY 3/-

Background

Macri Partners are the City’s appointed Auditors in relation to the statutory audit for the year ended 30 June 2015.

As part of the statutory audit and in accordance with the External Audit Plan, Macri Partners conducted an interim audit during June 2015. During the interim audit, Macri Partners identified a number of matters requiring attention in the following areas:

- Creditors
- Rates
- Sundry Debtors
- Receipting
- Payroll
- Journal Entries
- Compliance.

The attached report contains issues raised and management comments.

The Interim Audit report for the year ended is presented to the Audit and Risk Committee for their information.

Recommendation to Committee / Council

The Audit and Risk Committee receives the Interim Audit report for the year ended 30 June 2015.

Attachment

1. Macri Partners - Interim Audit report for the year ended 30 June 2015

MACRI



PARTNERS

Certified Practising Accountants

PARTNERS

Anthony Macri FCPA
Domenic Macri CPA
Connie De Felice CA

CITY OF NEDLANDS	
DIVISION	
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3 August 2015

The Mayor
City of Nedlands
PO Box 9
NEDLANDS WA 6909

Dear Sir

RE: CITY OF NEDLANDS - INTERIM AUDIT MANAGEMENT LETTER 2015

We forward a copy of the interim audit management letter for your information.

Yours faithfully

ANTHONY MACRI
AUDIT PARTNER



9 July 2015

Chief Executive Officer
City of Nedlands
P O Box 9
NEDLANDS WA 6909

CITY OF NEDLANDS	
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Dear Sir

RE: INTERIM AUDIT VISIT FOR THE YEAR ENDED 30 JUNE 2015

We carried out an interim audit of the City of Nedlands for the year ended 30 June 2015. Our interim audit covered a review of the accounting and internal control procedures in operation, as well as testing of transactions, in the following areas:

- ☐ Bank Reconciliations
- ☐ Investment of Surplus Funds
- ☐ Purchases
- ☐ Payments and Creditors
- ☐ Rate Receipts and Rate Debtors
- ☐ Receipts and Sundry Debtors
- ☐ Payroll
- ☐ General Accounting (Journals, etc.)
- ☐ IT Controls
- ☐ Property, Plant & Equipment and Infrastructure
- ☐ Registers (Tenders Register, etc.)
- ☐ Minutes Review

Our review also covered an examination of some compliance matters, which are required under the Local Government Act 1995 (as amended) and Financial Management Regulations 1996.

Please note that our examination of internal controls was carried out for audit purposes designed primarily for the purpose of expressing an opinion on the financial statements of the City of Nedlands.

Because of the inherent limitations of any internal control structure, it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

It should be appreciated that the matters noted came to our attention during the course of our normal audit examination and as a result do not necessarily include all those matters which a more extensive or special examination might identify.

Accordingly, our comments in this management letter are not intended to cover all aspects of the City's internal controls and accounting systems and are limited to those matters that arose from our normal audit procedures.

The following matters were noted and are brought to your attention.

CREDITORS

- (i) During our audit, we noted that new suppliers are set up by the Accounts Payable Officer after receiving a completed "Request for New Creditor Form". Details obtained include Australian Business Numbers (ABNs), bank account details, etc.

We observed that there were no background checks (e.g. company extracts obtained to view shareholders' and directors' details, etc.) performed on new suppliers before entry into the system. Such checks serve as an anti-fraud control and can assist to identify current or past Council employees, elected members, etc.

We recommend that background checks be performed as an anti-fraud control on new suppliers before entry into the Authority system. Such checks should be attached to support the completed "Request for New Creditor Form" and stored for record-keeping purposes.

This matter was raised in our previous interim audit management letter dated 16 June 2014.

Management Comment:

The City's AP Officer utilises ABN Lookup to check the status of all new creditor set up. Commencing 1 July 2015, all new creditors will be reviewed by the Finance Manager and selected key and substantial new suppliers will be subject to background checks.

In addition, a direction will be circulated to all staff through the Managers' monthly meeting that no Council money should be paid upfront until these payments are reviewed and authorised by a Departmental Director.



Goods received check is done at the invoice approval process which acts as an anti-fraud control as per our example below in our payment process.

CR No.	
Order No. _____	
Part Order <input type="checkbox"/>	Complete <input type="checkbox"/>
Goods Rec'd _____	
Prices Checked/Calc'd _____	
<input type="checkbox"/> GL Acct _____	
<input type="checkbox"/> PC Acct _____	
Payment Approved _____	

- (ii) We noted that changes to the supplier master file (e.g. bank account details, addresses etc.) can be made by the Accounts Payable Officer without any approval.

The Authority system can produce a "Maintenance Audit Report" which shows supplier master file changes. We noted that whilst this report is available, it is not utilised for reviewing any new additions or changes to supplier details.

We recommend that, as a monitoring control, the "Maintenance Audit Report" be generated on a periodic basis for review by an independent senior officer to ensure that updates to the creditors system only contain valid and authorised creditors and existing creditor details are not amended without the knowledge of management.

This matter was raised in our previous interim audit management letter dated 16 June 2014.

Management Comment:

With immediate effect, any changes to the supplier master file must be approved by the Finance Manager and once the "Maintenance Audit Report" is available, it will be produced and checked for all changes at least on a monthly basis.



- (iii) We carried out a review of the outstanding creditors as at 1 May 2015. The Creditors Aged Trial Balance Report indicated the following long outstanding creditors in the over 120 days category, namely:

	Creditors Name	Amount \$
1	United Energy Group Ltd	23,292.50
2	Beaver Tree Services Australia Pty Ltd	6,980.94
3	A Beautiful City Pty Ltd	13,200.00
4	Tree Amigos Tree Surgeons Pty Ltd	1,132.10
5	Zurich Australian Insurance Ltd	1,039.00
	Total	45,644.54

We will be pleased to receive feedback on the status of the above-mentioned outstanding creditors.

Management Comment:

The above outstanding creditors are no longer sitting in the over 120 day category after year end review is done in post June 2015.

RATES

The City's rating procedures were reviewed to ensure that they were in compliance with statutory requirements and that rates have been imposed correctly. This also included a review of the rate notices issued and the process of reconciliation of the Valuer General's reports to the Rates Ledger.

We checked a limited number of property assessments from the Rates Ledger to ensure that the rates calculations, raising and postings to the Rates and General Ledger were correctly performed.

The following matters were noted and are brought to your attention:

- (i) A major revaluation was carried out in April/May 2014 by Valuer General's Office with the new valuation taking effect from July 2014. The rate reconciliation is performed by the Rates Coordinator, reconciling the Valuer General's report to the year-end rating assessment value on the rates ledger in the financial system.

We noted that whilst the major Gross Rental Value (GRV) rates revaluation reconciliation was performed, there was no evidence that the reconciliation was signed and dated by the preparer and reviewed by an independent senior officer.



We recommend that procedures be introduced to ensure that the major GRV revaluation reconciliation report is signed off by the preparer and initialled by a senior officer independent of the reconciliation process to indicate that the reconciliation is correct and all exceptions and errors have been rectified.

Management Comment:

Management agrees with the audit findings and all future GRV reconciliations will be reviewed and signed off by the Finance Manager.

- (ii) During our testing of rates transactions, we noted three (3) instances where the interim rate notice was not showing the correct Minimum Rate. This related to transactions where classifications of properties were changed from vacant land to residential property, and vice versa. The noted instances resulted in the rating software correctly levying the rates for the year, but reflecting the Minimum Rate on the rates notice based on the initial classification rather than the latter. This issue was discussed with the City's Acting Rates Officer who advised that the problem on the rate notice was due to a system issue.

We recommend that the matter be checked with the software provider in order to reflect the correct minimum rate imposed by the City on the interim rates notice.

Management Comment:

Management can concur with the audit findings and this matter has been currently logged to be investigated by CIVICA. It is hoped that this will be resolved by the end of September in time of the next issue of interim rates notice.

SUNDRY DEBTORS

We examined the policies and procedures in relation to debtors invoicing, receipting, banking and debt collection. The debtors system was reviewed with limited testings.

However, the following matters were noted during the audit:

- (i) At the time of our visit, we noted that reconciliations of the sundry debtors ledger to the general ledger control account were not performed for months of July and August 2014.

Failure to perform the reconciliations on a regular basis, at least monthly, may result in the checks and controls not being carried out and consequently could result in inaccurate and unreliable accounting data provided by the system.

As an important control procedure, we recommend that sundry debtor reconciliations be prepared regularly and promptly (i.e. monthly).

Management Comment:

Sundry debtor reconciliations are done on a monthly basis. The reconciliations for July and August 2014 have been completed. However, hard copies had been misfiled and at the time of Audit, they were missing with the debtors listing. Finance will produce or reconstruct the reconciliations in due course.



- (ii) During our testing of credit notes, we noted:
- 4 instances out of a sample of 7 credit notes where the credit note request forms were requested by and authorised by the same officer.
 - 2 instances out of a sample of 7 credit notes where the credit note request forms were not authorised.

Unauthorised credit notes can be used to cover up misappropriation and could result in loss of revenue to the organisation.

We recommend that the credit note request forms be authorised by an independent senior officer of the department where the original invoice was generated from (e.g. Manager, Supervisor, Director, etc.) before entry into the system. This will provide accountability and ensure only authorised requests are raised in the system.

Management Comment:

Management agrees that all credit notes raised in future will be authorised by a Senior Officer.

RECEIPTING

- (i) As part of our review of the City's receipting function at the Council Administration Office, we noted that:
- the "Receipt Listing Prior To Closing" report produced from the system is reconciled to the daily takings (cash, EFTPOS, credit cards, etc.) at the end of the day by the customer service officer; and
 - the report lists any cancelled receipts processed during the day by the customer service officer.

However, there was no evidence that this reconciliation report was reviewed by an independent senior officer. The absence of such review also indicates that all the cancelled receipts for the day may not be accounted for. Cancelled receipts can be used to cover up misappropriation or cash discrepancies.

We recommend that the "Receipt Listing Prior To Closing" report be signed and dated by the preparer. We further recommend that the reports be reviewed and initialled by a senior officer independent of the receipting function to indicate that the receipt reconciliations are correct, all cancelled receipts have been appropriately authorised with reasons ascertained and to provide evidence that the review has been carried out.

Management Comment:

Management agrees that the "Receipt Listing Prior to Closing" report is to be signed and dated by the preparer and it should also be subsequently initialled by a Senior Officer.



- (ii) During the audit, we observed that the receipting staff have the same log-on access. This makes it difficult to determine the identity of staff who has entered a receipt into the system should there be a discrepancy or dispute over the daily front counter receipts.

We recommend that different log-on access be issued to the various cashiers in order to have a monitoring control over front counter receipting process.

Management Comment:

It is not possible to allocate different log-on for the continuous daily receipting purpose and computer capacity. Every receipt has a physical sign-off showing the identity of the cashier who receipted it. Management will, in addition to this, review improvements in internal controls over cash receipting.

- (iii) During the audit, we observed that a manual receipt book is maintained at the Council Administration Office to provide receipts for cash collected after normal operating hours for the convenience of the ratepayers/customers. Further, there is no review of the completeness of the manual receipts issued by a senior officer independent of cashiering to ensure that all the manual receipts are valid and accounted for.

Lack of such review may lead to misappropriation or cash discrepancies being unaccounted for.

We recommend that controls be introduced over the usage of manual receipts at the front counter of the Council Administration Office to ensure all cash takings are accounted for. Alternatively, the practice of using manual receipts may be discontinued to ensure proper control over the receipting function via the City's financial system.

Management Comment:

Management will retain the manual receipting system and to enhance its control, all receipts will be verified and checked by a Senior Officer.

PAYROLL

Our audit examined the City's payroll system in the following areas:

- Reviewing the policies and procedures at the City in relation to the Payroll system
- Staff additions and terminations
- Changes to employees pay, including variations to pay
- Authorisation and monitoring of leave taken by employees
- Processing of payroll
- Segregation of duties

The following matters were noted and are brought to your attention:

- (i) As part of our audit process, we noted that amendments to the payroll master file are not reviewed by an independent senior officer. Lack of such control may provide opportunities for inappropriate amendments to remain undetected.

We recommend that a report containing amendments to the payroll master file be produced and reviewed by an independent senior officer in order to reduce the risk of inappropriate amendments.

This matter was raised in our previous interim audit management letter dated 16 June 2014.

Management Comment:

The development of any non-core report by Civica is both time consuming and costly. However, new controls have been implemented in payroll including a check by Finance Manager on all changes to the payroll master file.

- (ii) Our review of the payroll procedures revealed that reconciliations of the payroll reports to the general ledger are not performed on a monthly basis. The City's officers only perform an annual reconciliation at the end of the financial year.

The absence of timely and complete payroll reconciliations may result in undetected errors or misstatements. The lack of this control feature allows for differences to occur and accumulate over a period of time.

We recommend that management review its current procedures and make necessary changes to ensure that monthly reconciliations be performed of the payroll reports to the general ledger. This will assist to ensure that payroll disbursements and payroll expenses are correctly recorded and reported.

Management Comment:

Management agrees that payroll reconciliation will be reconciled on a monthly basis commencing July 2015.

JOURNAL ENTRIES

Australian Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* states that there is a risk in all entities that management may be in a position to override the financial controls to perpetrate fraud. The standard requires that auditors perform audit procedures to address this risk in the areas including journal entries.

As part of our audit, we performed procedures and reviewed internal controls over journal entries recorded in the general ledger.

To test this, we reviewed the entire population of journals as at our audit visit date to identify those which would be regarded as unusual or higher risk. All higher risk journals were tested to ensure they were appropriate and supported by a clear business rationale.



The following matter was noted and is brought to your attention:

We noted that there is no documented policy regarding the use, authorisation and control over journal entries.

We recommend that a documented policy be created which addresses the use of standard entries, non-routine entries (corrections and adjustments) and unusual or management-requested entries. This includes details on sequential numbering, the requirement for journals to be adequately explained or supported by appropriate documentation and the approved officers who can raise or authorise journal entries.

This matter was raised in our previous interim audit management letter dated 16 June 2014.

Management Comment:

We will update the internal procedures. GL journal has senior officer sign off process. Management have introduced sign off process to Rates journal.

COMPLIANCE

- (i) Regulation 33A(4) of the Local Government (Financial Management) Regulations 1996 requires that a copy of the review of a local government's annual budget and determination is to be provided to the Department within 30 days after the Council has made a determination.

During the audit, we noted that the mid-year budget review was adopted on 24 March 2015, however it was forwarded to the department on 7 May 2015.

Management Comment:

This is a management oversight and steps have been put in place to ensure this oversight will not happen again.

- (ii) Regulation 51(2) Local Government (Financial Management) Regulations 1996 requires a copy of the annual financial report of the local government to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report.

We noted that the auditor's report was issued on 9 October 2014, however the copy of the annual financial report was forwarded to the department by the City on 11 February 2015.

Management Comment:

As in (i) above, this is a management oversight and steps have been put in place to ensure this oversight will not happen again.



- (iii) Regulation 17 of the Local Government (Audit) Regulations 1996 requires the CEO to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:
- (a) risk management;
 - (b) internal control; and
 - (c) legislative compliance.

The review may relate to any or all of the matters referred above, but each of those matters is to be the subject of a review at least once every 2 calendar years. Further, the CEO is to report to the audit committee the results of that review.

During the audit, we noted that the biannual review was only carried out for the risk management area, and not for internal control and legislative compliance.

We sought clarification from the Department of Local Government and Communities on this matter and were advised that such practice was not deemed adequate and would not comply with Audit Regulation 17. The regulation requires a formal review to be undertaken focusing on the specified three areas.

Management Comment:

Review of internal control and legislative compliance is a continuous process which takes place on a perpetual basis either directly through the CEO's office or through delegation to Senior Officers of the City. This review will be formally conducted and reported to the next Audit Committee meeting.

We thank your staff for the assistance provided during the audit. Should you have any queries with respect to the above or any other matters please do not hesitate to contact our office.

Yours faithfully


ANTHONY MACRI
AUDIT PARTNER

7.3 BDO INTERNAL AUDIT – PROCUREMENT AND CONTRACT MANAGEMENT REVIEW

The Members of the Audit and Risk Committee did not support Administration's response in relation to 3.1.1 and 3.2.2. In this regard

3.1.1 – Committee members asked for greater effort to ensure purchase orders are raised at the time of placing the order, rather than when an invoice is received. They consider this a very important control.

The Director Corporate and Strategy agreed to look into this matter further with the Manager Finance.

3.1.2 – Committee members see the approval of all purchase orders by the immediate supervisor as an important procurement control.

The Director Corporate and Strategy agreed to investigate the Authority system to whether the system parameters could be altered to affect this change. In the interim, exception reporting could be used.

The recommendation was then put to the meeting.

Regulation 11(da) – Not Applicable - Recommendation Adopted.

Moved – Councillor McManus
Seconded – Mayor Hipkins

Recommendation to Committee / Council

The Audit and Risk Committee receives the External Audit Plan for the year ended 30 June 2015.

CARRIED UNANIMOUSLY 3/-

Background

BDO Audit (WA) Pty Ltd are the City's appointed Internal Auditors.

As part of the Internal Audit plan, BDO Audit (WA) Pty Ltd conducted a Procurement and Contract Management Review.

The following areas have been covered in executing this review:

- Procurement procedures, including contract management, tendering and the selection process
- The procedures for creating new contracts / amending existing contracts
- Contract management responsibilities and staff skills and experience, including the formal definition of their duties
- The monitoring of contracts, including performance and expiry
- Contract reporting
- Transitional arrangements and the procedures for starting/ending contracts
- Accounting for contract costs

The Procurement and Contract Management Review period to be covered for the review is from 1 November 2013 to 31 October 2014. The attached report contains issues raised and management comments.

The Procurement and Contract Management Review is presented to the Audit and Risk Committee for their information.

Recommendation to the Audit and Risk Committee

The Audit and Risk Committee receives the Procurement and Contract Management Review and notes the finding and recommendation of the review and the actions proposed by Administration.

Attachment

1. BDO Audit (WA) Pty Ltd - Procurement and Contract Management Review



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Subiaco, WA 6008
PO Box 700, West Perth WA
Australia 6872

22 April 2015

Mr Michael Cole
Director of Corporate Strategy
City of Nedlands
71 Stirling Highway
NEDLANDS WA 6009

Dear Michael,

City of Nedlands - Procurement & Contract Management Review

We write to advise you of the completion of our review of the City of Nedlands' ("the City") Procurement and Contract Management processes. This review has been conducted in accordance with our agreed Terms of Reference dated 15 December 2014. We now enclose our report which details the findings arising from the review.

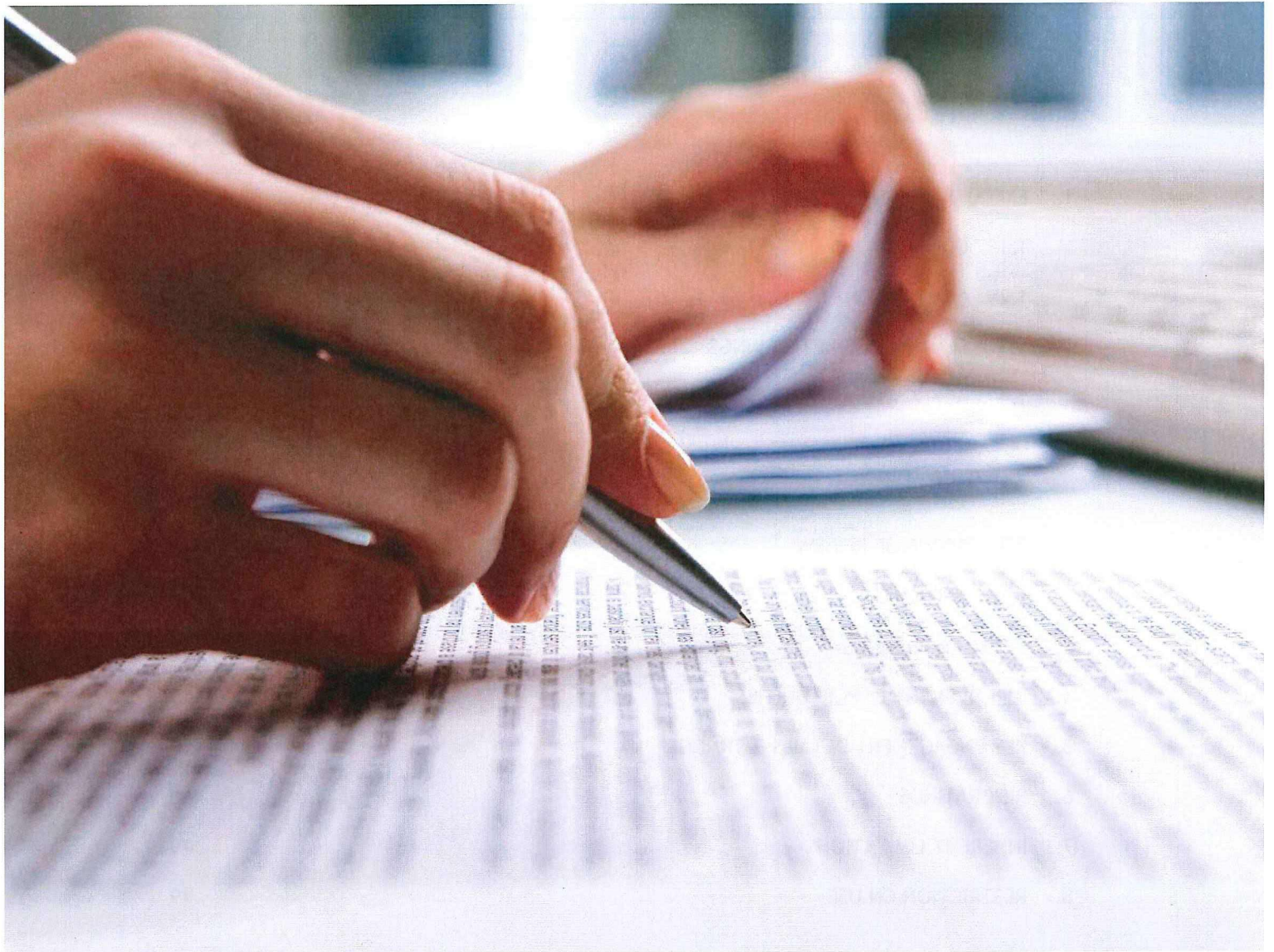
Should you have any queries in relation to this report please contact either myself on (08) 6382 4690 or Lih Ling Ma on (08) 6382 4745.

Yours faithfully,

BDO Audit (WA) Pty Ltd

James Manning
Associate Director

Encl.



City of Nedlands

Procurement and Contract Management Review

April 2015



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1. EXECUTIVE SUMMARY

1.1 Context

In accordance with the City of Nedlands' Internal Audit Annual Plan, a procurement and contract management review has been scheduled to take place in the financial year ending 30 June 2015.

In 2013 the City of Nedlands ("the City") implemented procurement and contract management policies and procedures for managing its procurement and contracting activities. In compliance with the Local Government Regulations of 1996, the City is obliged to adhere to the prescribed official tender invitation process for any purchases above \$100,000. However, if a decision is made to seek public tenders for contracts of less than \$100,000, the same tender process must still be followed. There are a variety of contracts managed by the City, including, for example, the purchase of concrete and paving for the construction of buildings and infrastructure, for IT projects, insurance cover, waste management, community services and such like. The number of tenders managed by the City is about 25 per year.

In the past the City used WALGA's preferred supplier arrangements for selecting its suppliers. However, in late 2013 the City withdrew from WALGA, and its tendering and procurement activities are now processed entirely in-house by an internal panel. The City's procurement activities are centrally managed by the Finance department, and the contract and tendering processes are managed by Finance in conjunction with the respective departments who raise the originating purchase requests.

This report sets out our review of the procurement and contract management practices at the City for the period between 1 November 2013 and 31 October 2014.

1.2 Conclusion

The overall rating for this review is "**Satisfactory**". The Review ratings are defined in Section 7 of this report. The "Satisfactory" rating for this review reflects the results of our execution of the review plan.

Our conclusion is based on the premise that the City has developed and implemented processes for procurement and contract management, and that the key risks have been identified and addressed in the documented procurement procedures. However, during our testing, we noted several exceptions or deviations from authorised policy such as the creation of Purchase Orders after an invoice is received; this circumvents the purpose of a procurement process. Staff in the requisitioning departments are also allowed to authorise their own Purchase Requisitions after Finance have checked them for accuracy and reasonableness.

Concerning procurement, the procurement procedure document should be reviewed with a view to improve the degree of control applied to this important process. For example, we noted some weaknesses in practice, such as allowing invoices with amounts greater than the amount specified in the approved Purchase Order to be paid. Likewise the role and function of the Purchasing Reviewer should benefit from a more explicit and performance-linked job description.

Concerning contract management, there is an existing process in place. However, no policy or procedure document has been developed by the City. At present, the Purchasing & Tenders Coordinator is responsible for ensuring that the procurement process is followed during the tender process, while the various department managers are responsible for specifying their requirements and ultimately the nature, terms, and timing of the delivery of the services required of, and specified in, the contract.

1.3 Summary of key findings

Our review identified 1 'High' risk rated finding, and 4 'Medium' risk rated findings. These are summarised in Table 1 below. We have also identified 1 'Improvement Opportunity'. Our findings and observations are further explained in Section 3 of this report. The definitions of the risk ratings ascribed to individual risks are provided in Section 7 of this report.

Table 1: Summary of 'High' risk-rated finding

Reference	Findings
High risk-rated	
3.1.1	<p>Non-adherence to established procurement policies and procedures</p> <p>During our review, we noted the following exceptions:</p> <ul style="list-style-type: none"> a) Creation of Purchase Orders after an Invoice is received b) Invoiced amounts exceeding PO amounts, ranging from 3% to 35% <p>Please refer to the detailed findings section of this report for more information.</p>
Medium risk-rated	
3.2.1	<p>Lack of a complete and accurate contract register for Technical Services</p> <p>Following our review, we noted that there are 3 separate registers are maintained for monitoring the status of contracts within the technical services. They are:</p> <ul style="list-style-type: none"> i) Contract listing; ii) Sharepoint listing; and iii) RFT/RFQ number index. <p>We noted the following discrepancies between the different registers:</p> <p><u>Contract listing:</u></p> <ul style="list-style-type: none"> a) 3 contracts listed are not in the Sharepoint listing as they are maintained in TRIM; and b) 4 contracts listed did not have their RFT/RFQ numbers included. <p><u>Sharepoint listing:</u></p> <ul style="list-style-type: none"> a) 4 contracts listed needs to be included in the Contract Listing; and b) 9 contracts listed need to have their status updated on the system. <p>We have brought these discrepancies to the Purchasing & Tenders Coordinator's attention during our review. Therefore, due to the high number of high value and long term contracts within the Technical Services area, we recommend that Technical Services maintain an up to date Contracts Listing which</p>

will be regarded as the single source of truth for all contracts relating to Technical Services.

3.2.2 Self-approved Purchase Requisitions

Staff are allowed to self-approve purchase requisitions as long as they are within the parameters of authority delegated to them. The Finance department also reviews these Purchase Requisitions after they are created. There still remains a risk of potential segregation of duty and therefore we recommend that the City establish exception reports which will allow for better management oversight of Purchase Requisitions raised and approved by the same person.

3.2.3 Purchasing Procedure should be reviewed, revised and strengthened

The Purchasing Procedure document makes reference to older procurement processes and also does not include an “acceptability” margin for any discrepancies between the PO and its related invoice.

3.2.4 Contract management policy and procedures should be documented

We noted that there is a contract management process in place. However, there is no documented contract management policy or procedure.

1.4 Acknowledgement

We thank the staff at the City for the support and assistance they gave to us while we were executing this review.

2. DETAILED REPORT

2.1 Objectives of Review

The objective of this assignment is to provide a report detailing the observations and recommendations resulting from our consideration and testing of the procurement and contract management framework established by the City.

2.2 Scope of Review

The following areas have been covered in executing this review:

- Procurement procedures, including contract management, tendering and the selection process
- The procedures for creating new contracts / amending existing contracts
- Contract management responsibilities and staff skills and experience, including the formal definition of their duties
- The monitoring of contracts, including performance and expiry
- Contract reporting

- Transitional arrangements and the procedures for starting/ending contracts
- Accounting for contract costs

The period to be covered for the review is from 1 November 2013 to 31 October 2014.

This review will bring to the attention of management any points relating to other areas that come to our attention during the course of the assignment.

2.3 Approach

We executed this review by proceeding through the following steps:

- Conducted interviews and process walkthrough inspections and examinations with relevant staff to determine and document overall system functions and each system's internal control environment. This work was supplemented by a desktop review of the City's relevant policies and procedures;
- Identified, evaluated and prioritised key risks inherent within the subject processes. Thereafter, identified the key controls that management has developed and implemented to manage these risks;
- Performed testing to examine the effectiveness of the identified controls and validated the assertions made by staff and management. These procedures took the form of discussions, observation, enquiry, and re-performance. Where applicable, we used data analytics in order to assist with testing;
- Highlighted and discussed with staff and management any exceptions noted during the course of our fieldwork;
- Provided weekly status updates reporting progress against the engagement timeline and work planned for the following week;
- Conducted a close out meeting upon completion of fieldwork;
- Prepare and discuss draft report (this report) covering all issues identified with management; and
- Finalise report for distribution once management comments have been received.

3. DETAILED FINDINGS

3.1 High Risk-rated Findings

Finding	Potential Risk	Recommendation	Management Comment
3.1.1 Non-adherence to established procurement policies and procedures			
<p>Arising from our review, we noted that there were instances where the established procurement policies and procedures had not been followed.</p> <p>a) <u>Retrospective creation of Purchase Orders</u></p> <p>We noted that more than 50% (21 out of 40) sampled transactions had their Purchase Orders (POs) created after the invoice had been received. Section 4 - 'Purchase Orders' of the City's Purchasing Procedure states that "Purchase Orders must be approved prior to placing the order with the supplier".</p> <p>b) <u>Invoice amount more than PO amount</u></p> <p>We noted 3 of the sampled transactions had an approved invoice amount which was more than the PO amount. We were informed that the blanket policy is to accept invoices within a 10% range. However, from the exceptions we noted, they ranged from 3% to 35%. However, we do note that invoices are subsequently authorised within the Delegated Authority.</p>	<ul style="list-style-type: none"> Payment for unauthorised and/or improperly processed purchase orders which have been made, the goods or services received, and for which the City is liable to make payment Breach of established policies and procedures 	<p>We recommend that management should take the following actions to address this finding:</p> <p>a) Enforce the policy whereby a PO must be raised and approved prior to placing an order with a supplier. Finance should contact suppliers regarding invoice settlement</p> <p>b) Implement a system prompt whereby a warning will appear should there be any invoices which exceed the PO amount. In cases where the authority has been breached, a subsequent decision will have to be made whether to accept the variance or raise an</p>	<p>Management Action:</p> <p>a) All staff involved in the procurement function will be reminded at least once every six months of the benefits to the City of complying with the City's Purchasing Procedure. Suppliers are also to be reminded that there could be delays in the processing of invoices not having a valid Purchase Order Number, and the City cannot be held responsible if payment terms are exceeded.</p> <p>b) In instances where the Invoice amount exceeds the PO value by not more than 30% or \$5,000 (whichever is lower), a written explanation by the authorising officer for the variance will be taken as complying with the</p>

3.1 High Risk-rated Findings

Finding	Potential Risk	Recommendation	Management Comment
		<p>additional PO. A further decision aimed at ensuring this eventuality does not recur and how to achieve that will also be required.</p> <p>Overall, management should consider implementing exception reporting to allow for better oversight and to mitigate the risks within the purchasing process.</p>	<p>requirements of the City. Should the variance be greater than the allowed tolerance, fresh POs would need to be raised.</p> <p>Responsible Official: Manager - Finance</p> <p>Implementation Date: 15 May 2015</p>

3.2 Medium Risk-rated Findings

Finding	Potential Risk	Recommendation	Management Comment
3.2.1 Lack of a complete and accurate contract list for Technical Services			
<p>With the assistance of Nathan Brewer, Purchasing & Tenders Coordinator, we obtained Contract List 14-15 and a list of the contracts which have their documents stored in MS Sharepoint. Upon comparison of these two lists we noted several discrepancies. We understand that these arose because of the following reasons:</p> <ul style="list-style-type: none"> a) Contracts may not be related to the Technical Services area; b) One off contracts - which are not captured in the Contract List; c) Contracts may still be stored on TRIM; d) A contract has ended and the list needs to be updated. <p>We also noted that Finance maintains a Request for Tender and Request for Quote number index. The information contained within this index is the RFT/RFQ number, TRIM/MS Sharepoint number, Requesting Officer, Point of Contact, Title of Contract and where the evaluation documents are stored.</p>	<ul style="list-style-type: none"> • Lack of oversight for ongoing contracts resulting in using contractors who have ended their contract term, or procuring goods or services from other providers when there are contracts in place with preferred suppliers. • Engaging with contractors who have expired contracts 	<ul style="list-style-type: none"> • The Purchasing and Tenders Coordinator should update the contracts register and ensure that it is kept accurate and complete as part of the procurement process. • Include the step to update the contract register in a checklist should the City decide to establish one. • The contract register should then be reviewed at least twice a year to ensure it is current. 	<p>Management Action:</p> <p>Management does not support maintaining a Contracts Register. The City's records are transitioning from TRIM to SharePoint. A feature of SharePoint will allow metadata that shows dates of contracts and current status, rendering a Contract irrelevant as it will only replicate information already viewable from the SharePoint folder/listing. The existing contracts listing will be retired once there are no more current contracts in TRIM.</p> <p>No further action required.</p> <p>Responsible Official:</p> <p>Not applicable</p> <p>Implementation Date:</p> <p>Not applicable</p>

3.2 Medium Risk-rated Findings

Finding	Potential Risk	Recommendation	Management Comment
3.2.2 Self-approved Purchase Requisitions			
<p>We found that the same staff member is allowed to create and approve his/her own Purchase Requisition and approve invoices for payment as long as it is within his/her approved Delegations of Authority.</p> <p>However, we do note that the City has implemented a control to ensure there is some measure of segregation of duties. This control is in the form of a separate Purchasing Reviewer function whereby a member of the Finance team will review the Purchase Requisition for reasonableness, accuracy of the account codes used, and that the appropriate purchasing requirements have been followed.</p>	Potential segregation of duties risk	We recommend that the City develop an exception report to report on PRs raised and approved by the same person to allow for better management oversight.	<p>Management Action:</p> <p>Management considers that the independent Review of Requisitions before they are converted into Purchase Orders is sufficient control to prevent the raising of fraudulent POs. This is a more effective control than an exception report after the event.</p> <p>Responsible Official:</p> <p>Control already in place</p> <p>Implementation Date:</p> <p>Control already in place</p>
3.2.3 Purchasing Procedure needs to be reviewed and updated			
<p>During our review we noted that the Purchasing Procedure was last updated in March 2012. This document needs to be reviewed, revised and updated by management accordingly. For example, the references to the old document management system, TRIM which has now been replaced by</p>	<ul style="list-style-type: none"> • Breach of established policies and procedures • Key person dependency • Lack of accountability 	We recommend that the City review the adequacy of its current practices, and then amend its procedure document so that it is in line with those practices as revised if any	<p>Management Action:</p> <p>Management agrees that it is good practice to review and update the procurement procedures at regular intervals, say every two years. A</p>

3.2 Medium Risk-rated Findings

Finding	Potential Risk	Recommendation	Management Comment
<p>MS SharePoint, are clearly no longer relevant.</p> <p>Additionally, under Section 4 - Purchase Orders, we note that additional purchase orders are required should there be additional works, services or goods being supplied compared to what was originally ordered. However, during the review we were informed that there is some margin given (within 10%) if the invoice value is more than the PO. This has not been reflected in the Purchasing Procedure document.</p> <p>Lastly, the Purchasing Reviewer function has not been incorporated in the procedure document</p>		<p>revision is necessary. Thereafter, the updated procedure should be communicated to staff members.</p>	<p>review of the current procedures is to be carried out.</p> <p>Responsible Official: Director - Corporate & Strategy</p> <p>Implementation Date: 1 June 2015</p>
3.2.4 Contract management policy and procedures should be documented			
<p>During our review, we noted that there is a contract management process in place. However, there is no documented contract management policy or procedure.</p>	<ul style="list-style-type: none"> • Key person dependency • Inconsistent process is followed during the contract establishment and management process 	<ul style="list-style-type: none"> • We recommend that the City develop and document contract management policies and procedures. Thereafter, communicate these policies and procedures to all staff members. • A policy document should at least contain the following: <ul style="list-style-type: none"> - Objectives & Scope 	<p>Management Action: Agreed</p> <p>Responsible Official: Projects and Policy Officer in conjunction with Technical Services</p> <p>Implementation Date: Currently recruiting Projects and Policy Officer. Policy and procedure to be completed by September 2015</p>

3.2 Medium Risk-rated Findings

Finding	Potential Risk	Recommendation	Management Comment
		<ul style="list-style-type: none"> - Roles & responsibilities of a Contract Manager • A procedure document should at least contain the following: <ul style="list-style-type: none"> - Objectives & Scope - Procedural steps for the key stages of contract management: <ul style="list-style-type: none"> - Before the contract commences - During the contract period - Upon contract termination / expiry • A checklist may also be developed to ensure that the Contract Manager follows the appropriate procedures for Contract Management. 	



3.3 Low Risk rated Findings

No low risk rated findings were noted during this review.

4. Improvement Opportunities

Finding	Improvement Opportunity	Management Comment
<p>4.1 Multiple storage repositories for contract documentation</p> <p>Contract documentation is currently stored in multiple locations. Recently the City has implemented a new document management system, MS SharePoint, to replace its previous document management system, HP TRIM. Some records are stored only in hardcopy form with the Finance or Records department.</p> <p>Evidently those documents are not amenable to access as quickly or easily as those stored electronically. Hence there may be efficiencies to be obtained if all documents are stored on a suitably indexed electronic repository such as MS SharePoint.</p>	<p>The City should consider migrating documents stored in TRIM into SharePoint in order to minimise the risk of losing key contractual documents should the TRIM system fail. We were informed by the IT Manager that they are now focusing more resources on SharePoint as TRIM is being retired.</p> <p>Additionally, all signed off documents which are only maintained in hardcopy form should be uploaded into SharePoint to mitigate the risk of document destruction should there be a disaster at the Head Office.</p>	<p>Management Action:</p> <p>This will be an ongoing process with Contractual documents whose terms have not expired to be stored in SharePoint, to provide easy access when necessary and mitigate then risk of loss of hard copies.</p> <p>Responsible Official:</p> <p>Records & Tenders Coordinators</p> <p>Implementation Date:</p> <p>1 July 2015</p>

5. KEY ENGAGEMENT DETAILS & TIMINGS

Key engagement details

Date Final Report Issued	20 April 2015
Review Period Covered	1 November 2013 - 31 October 2014
BDO Engagement Director	James Manning
Draft Report to be issued to Client Sponsor	Michael Cole Rajah Senathirajah

Key engagement timings

Key Events	Expected Date	Actual Date	Comments on Variations
Planning Meeting	17/11/14		
Fieldwork commencement	24/11/14	24/11/14	
Fieldwork completion	30/01/15	28/01/15	
Close out meeting	02/02/15	28/01/15	
Draft report sent	04/02/15	31/03/15	Following up on additional items resulting from the quality assurance process
Management Comments Received	18/02/15	10/04/15	Staff availability
Final report issued	20/02/15	20/04/15	

Engagement participants

Name	Title
City of Nedlands	
Rajah Senathirajah	Manager - Finance
Vanaja Jayaraman	Coordinator - Financial Accounting
Mark Goodlet	Director - Technical Services
Jacqueline Scott	Manager - Technical Services
Nathan Brewer	Purchasing & Tenders Coordinator
Nalin Dias	IT Coordinator
BDO	
James Manning	Associate Director
Chris Potter	Associate Director - Quality Review
Lih Ling Ma	Senior Manager
Ridzwan Mahdi	Consultant

6. RISK RATINGS

Overall report rating

Ratings awarded represent the conclusion of our audit based on the results of the audit of a process or audit area. The control environment has been rated using the following criteria. These were agreed with management before the engagement commenced.

Rating	Definition
Weak	No control framework in place. Significant control weaknesses were noted which have resulted in a material exposure. No compensating controls in place to mitigate the identified risks.
Marginal	Limited control framework in place. Significant control weaknesses were noted which, if not addressed, may result in a material exposure.
Satisfactory	Overall a control framework is in place. Some improvements identified which would further strengthen the control environment.
Good	Strong control environment in place and operating effectively (subject to limitations of sampling).

Rating individual findings

The following framework for audit ratings has been developed in order to prioritise the internal audit findings according to their relative significance, depending on their impact on a process. The individual audit findings contained in this report have been discussed and rated with management.

Rating	Definition
High	Issue represents a control weakness which could have or is having a major adverse effect on the ability to achieve process objectives.
Medium	Issue represents a control weakness which could have or is having a significant adverse effect on the ability to achieve process objectives.
Low	Issue represents a minor control weakness with minimal but reportable impact on the ability to achieve process objectives.
Improvement Opportunity	Issue represents an opportunity for management to consider in order to improve the effectiveness of the control environment.

7. INHERENT LIMITATIONS

Because of the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure within which the control procedures that are subject to internal audit operate is not reviewed in its entirety and, therefore, no opinion or view is expressed as to the effectiveness of the greater internal control structure. An internal audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are done on a sample basis only. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this internal audit report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, client management and personnel. We have indicated within this internal audit report the sources of the information provided. We have not sought to verify those sources independently unless otherwise noted within the internal audit report. We are under no obligation in any circumstance to update this internal audit report, in either oral or written form, for events occurring after the internal audit report has been issued in final form unless specifically agreed with management.

8. RESTRICTION ON USE

This report is intended solely for the use of management, the City of Nedlands Council, the external auditors, regulatory agencies or the City's legal counsel and cannot be used by, circulated, quoted, disclosed, or distributed to third parties without BDO's prior written consent.

7.4 BDO INTERNAL AUDIT REPORT – BUSINESS CONTINUITY REVIEW

The Director Corporate and Strategy expressed his disappointment with the marginal rating for this review based on the work undertaken to date with risk consultants from Local Government Insurance Services. The findings were discussed with the Committee and the recommendation was then put to the meeting.

Regulation 11(da) – Not Applicable - Recommendation Adopted.

Moved – Mayor Hipkins
Seconded – Councillor McManus

Recommendation to Committee / Council

The Audit and Risk Committee receives the External Audit Plan for the year ended 30 June 2015.

CARRIED UNANIMOUSLY 3/-

Background

BDO Audit (WA) Pty Ltd are the City's appointed Internal Auditors.

As part of the Internal Audit plan, BDO Audit (WA) Pty Ltd conducted a Business Continuity Review.

The following areas have been covered in executing this review:

The review's objectives were to assess the adequacy of the processes with regard to:

- The BCM and DRP management framework;
- The process for developing the BCP/DRP;
- The process for ongoing BCM/DRP management;
- The process for managing changes to system and processes that may impact to BCP/DRP;
- The process for managing the BCP/DRP testing, plan maintenance and staff training.

The review period covered 1 Jan 2014 to 31 December 2014. The attached report contains issues raised and management comments.

The Business Continuity Review is presented to the Audit and Risk Committee for their information.

Recommendation to the Audit and Risk Committee

The Audit and Risk Committee receives the Business Continuity Review and notes the finding and recommendation of the review and the actions proposed by Administration.

Attachment

1. BDO Audit (WA) Pty Ltd - Business Continuity Review



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38 Station Street
Subiaco, WA 6008
PO Box 700, West Perth WA
Australia 6872

28 July 2015

Mr Michael Cole
Director of Corporate Strategy
City of Nedlands
71 Stirling Highway
Nedlands WA 6009

Dear Michael,

City of Nedlands - Business Continuity Management (BCM) Review

We have completed our review of the Business Continuity Management ("the Review") framework and process at the City of Nedlands ("the City"). This review was conducted in accordance with our agreed Terms of Reference dated 16 March 2015. We enclose our report which details the findings arising from the review.

Should you have any queries in relation to this draft report, please do not hesitate to contact either myself on (08) 6382 4715 or Lih Ling Ma on (08) 6382 4745.

Yours faithfully,

BDO Audit (WA) Pty Ltd

BDO
A handwritten signature in black ink, appearing to read 'Wayne Basford', is written over the BDO logo.

Wayne Basford
Director

Encl.

City of Nedlands
Business Continuity Management Review
July 2015





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1. EXECUTIVE SUMMARY

1.1 Context

In accordance with the 2014/15 Internal Audit Annual Plan, a review of the business continuity and disaster recovery planning processes has been performed. The review was included in the Plan due to the number of risks identified in the City's Strategic Risk Register relating to business continuity plan (BCP) and disaster recovery plan (DRP).

In 2014, City of Nedlands engaged consultants from LGIS to develop and formalise its BCP. We were advised that the BCP was developed based on business risk identified by LGIS in conjunction with Management Team. Upon completion of the Crisis Management and Business Continuity Response Plan in late 2014, LGIS together with the Executive Management performed a desktop review of the BCP. The Crisis Management and Business Continuity Response Plan are available in the major exits to the Administration Building, in each of the vehicles allocated to the CEO and Directors as well as saved in SharePoint and available on the Intranet.

At the time of our review, the IT DRP has not been fully documented nor formalised due to the recent relocation of IT infrastructure from the Administration office to a third party's Computer Centre at Malaga. IT Management plan to replicate the production data from Malaga to the Disaster Recovery server hosted by iiNet in the near future. In the interim period, backup of production data is through the online replication from Computer Centre at Malaga to the current DR server located at Depot.

1.2 Conclusion

BCP is a critical risk management program with the objective of protecting organisations from potential disruptive activities. The BCP and IT DRP provide a framework for making appropriate risk mitigation decisions and recovery of business systems. We note from our review, that over the past one and half years the City's management has initiated BCP and DRP projects as part of the City's drive to continuing improve risk management. These include engagement of external consultant i.e. LGIS for developing the business risk profiles, formalising the Crisis Management and Business Continuity Response Plans.

In addition, IT Management has also initiated a number of projects for improving its IT infrastructure that provide redundancy and recovery measures. At the time of our review, we noted that there were still some works relating to BCP and DRP i.e. DRP site implementation, policy and procedures pending for completion.

Our findings relate mainly to the governance, policy and procedures relating to the BCP and DRP. However, we are unable to give assurance over the effectiveness of all elements of the BCP and DRP as the roll out and the formal documentation of these processes is not yet complete.

As the result of the issues identified, a "Marginal" rating has been assigned in accordance with the Internal Audit Report rating and definition; these are included at Section 6 of this report. Our findings are summarised in Section 1.3 of this report.

We believe that the rectification of the identified weaknesses will contribute significantly in enhancing the current BCM process and providing confidence that critical and essential business functions are available in the event of business disruption.

1.3 Summary of key findings

We identified four 'Medium' risk-rated findings. These are summarised in Table 1 below. We have also made two observations. The findings and observations are further explained in Section 3 and 4 of this report. The definitions of individual ratings are provided at Section 6 of this report.

Table 1: Summary of 'Medium' risk-rated findings

Reference	Findings
Medium rated	
3.2.1	<p>Formalisation of IT DRP and BC sub plan</p> <ul style="list-style-type: none"> IT DRP has not been fully documented and formalised for effective implementation. The Business Continuity Sub Plan for critical business function has not been determined and documented. This includes the Maximum Acceptable Outage (MAO) ¹ for critical business functions (e.g. Depot, Library, Community Infrastructure, Capital Work Program, Health and Environment, Park Services, Customer Service, Finance and IT Services), impact on loss of critical business function, failure scenario and contingency plan.
3.2.2	<p>Crisis Management (CM) and Business Continuity (BC) Response Plan</p> <p>From the review of the current Crisis Management and Business Continuity Plan, we noted the following exceptions:</p> <ul style="list-style-type: none"> The plan does not include specific objectives to be achieved nor does it include a defined scope to be covered as part of the business continuity plan. The activation of the Crisis Management and Business Continuity Response Plan is currently based on business interruption that is estimated to be longer than one working day. There is no basis to determine the reasonable timeframe for plan activation as currently MAO for critical business functions has not been determined. Responsibility statements for each position in the Crisis Management, Business Continuity Management and supporting positions have not been fully developed to ensure that there are clear directions available for each of the members of the CM and BCM team. On the declaration of a Crisis or Business Continuity Event, no command centre is designated in the current Crisis Management and Business Continuity Response Plan nor is the resource requirement for this centre set out in the plan. We noted that although the Plan covers a number of loss scenarios including loss of people, loss of building/infrastructure/equipment, loss of IT or communications and loss of supplier, no detailed business continuity strategy and response options were established for each of these scenarios other than the checklist which list the general task items.

¹ MAO - The maximum acceptable outage is the maximum period of time that an organisation can tolerate the disruption of a critical business function, process, asset or IT Application before the achievement of objectives is adversely affected.

Table 1: Summary of 'Medium' risk-rated findings

Reference	Findings
	<ul style="list-style-type: none"> The plan does not provide clear direction whether in the event of an emergency at the various site offices, the site's emergency procedures should be followed or not. <p>In general, the plan does not provide clear and descriptive procedures to be followed by the CM and BCP team. Currently, the plan only provides general information and high levels checklists. The checklist are more suitable to developing a BCP rather than by the detailed steps to be followed in case of disruption.</p>
3.2.3	<p>IT DRP testing</p> <p>We were advised that IT DRP testing were conducted at the end of 2014. From our review of the IT DRP testing, we noted the following exceptions:</p> <ul style="list-style-type: none"> no documented test strategy, documentation did not include test plans and related testing scenarios, methods, and schedules; no documented test results, describing the detailed IT DRP testing conducted; no business users involvement in the IT DRP testing to confirm that they are able to successfully logon to the system at the DR site and that the applications were functioning as expected; no post testing de-brief and report that detailed the observation, issues, gap analysis and lesson learned.
3.2.4	<p>BCP and DRP training</p> <p>There is no predefined BCP and DRP training to train staff on the BCP and DRP process. Currently, the training relating to BCP and DRP is limited to the staff induction training.</p>

1.4 Acknowledgement

We thank the staff at the City for their willing support and assistance given to us in executing this review.

2. REVIEW APPROACH

2.1 Objectives of Review

The objective of this review was to assess and conclude on the extent to which the existing Business Continuity Management framework and the related processes that have been established by the City to support its business continuity and disaster recovery processes are operating as intended.

2.2 Scope of Review

The review's objectives were to assess the adequacy of the processes with regard to:

- The BCM and DRP management framework;
- The process for developing the BCP/DRP;
- The process for ongoing BCM/DRP management;
- The process for managing changes to system and processes that may impact to BCP/DRP;
- The process for managing the BCP/DRP testing, plan maintenance and staff training.

The review period covered 1 Jan 2014 to 31 December 2014

2.3 Approach

In executing this review, we have:

- Held discussions with management in order to gain an understanding of the current BCP and IT DRP Management processes as applied in the City's operating environment;
- Performed a desktop review of BCP AND IT DRP and its related documentation and evaluated the adequacy of the controls that management has developed and implemented to support the business continuity process;
- Because this is a high level review, we did not perform substantive testing; however, we have sought documentary evidence to demonstrate that controls are operating as intended;
- Upon conclusion of the fieldwork activities, we conducted a closeout meeting with management to discuss the results of the fieldwork activities.
- We then prepared a draft report (this report) highlighting key findings from our fieldwork and recommendations to address the identified control weaknesses. We are now issuing this draft report to management for them to validate the accuracy of the findings and to ensure that all recommendations are practical in nature and appropriate in purpose.
- Upon receipt of management's comments in relation to our findings, we will finalise our report for distribution.

3. DETAILED FINDINGS

3.1 High Risk-Rated Findings

None noted.

3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
3.2.1 Formalisation of IT DRP and Business Continuity Sub Plan			
<p>a. IT Disaster Recovery Plan</p> <p>A draft IT Disaster Recovery Plan has been produced. However, this plan has not been completed with the detailed steps and instruction on recovery of IT systems. IT management is aware that they need to complete this plan once the new IT infrastructure has been moved to the new third party data centre at Malaga and the DR solution is determined.</p> <p>We were advised by IT Manager that the IT DRP will be cross linked to the City's overarching BCP.</p>	<ul style="list-style-type: none"> Incomplete/un documented plan and procedures may cause delayed in recovery or incomplete recovery. 	<p>We recommend that the IT DRP should be formalised as soon as practical. The IT DRP Plan should at least cover the following topics:</p> <ul style="list-style-type: none"> Disaster definition; Disaster scenario (e.g. loss of production data centre, loss of IT infrastructure and network, loss of critical business application etc.); Disaster recovery strategy; Disaster recovery sites and services; Disaster Recovery Team and Responsibilities; Disaster Recovery Action Plan; 	<p>Management Action: Agreed.</p> <p>Responsible Official: Manager Corporate Strategy and Systems</p> <p>Implementation Date: December 2015</p>



3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
		<ul style="list-style-type: none">• Recovery Sequence;• Testing the Plan;• Maintaining the Plan. <p>The IT DRP should be approved by Management and communicated to all team members who have IT disaster recovery responsibilities.</p> <p>This plan should be tested at least on an annual basis with test plan and results documented.</p>	
<p>b. Business Continuity Sub Plan for Critical Business Functions</p> <p>We noted that the City's has determined the Recovery Time Objectives (RTO)² and resource requirements for its various business units in the Crisis Management & Business Continuity Response Plan. However, the MAO for the critical business</p>	<p>Without documented business continuity sub plan for critical business functions, may potentially</p>	<p>We suggest that Management should work with the various business units and develop the</p>	<p>Management Action:</p> <p>There were workshops conducted in the past for developing work area plans. In</p>

² The Recovery Time Objective (RTO) is the targeted duration of time and a service level within which a business process must be restored after a disaster (or disruption) in order to avoid unacceptable consequences associated with a break in business continuity.

3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
<p>functions (e.g. Depot, Library, Community Infrastructure, Capital Work Program, Health and Environment, Park Services, Customer Service, Finance and IT Services), impact on loss of critical business function, failure scenario and contingency plan have not been fully determined and documented.</p> <p>We understand that Management is developing the ICT Business Impact Analysis.</p>	<ul style="list-style-type: none"> • Delay the management team for making decision in response to the event of crisis or disaster; • Delay the recovery of critical business process. • Impact the delivery service of the City • Impact the City's reputation amongst its users 	<p>business continuity sub plan for its critical business functions. These BC sub plans should be incorporating into the overarching BCP and at least provides the following information:</p> <ul style="list-style-type: none"> • Sub plan owner • Identified critical business functions • Overview of business functions • Objectives of sub plan • Failure scenario analysis • Maximum allowable outage • Authority for invoking plan • Key decision makers to be assembled • Stakeholders other than process owner • Pre event information • Emergency response • Continuity Management • Treatment/Action Plan • Communication Considerations 	<p>order to formalise these plans, we have already been advising all staff of our intention to set up meeting with each work area to review and re-develop BC Sub Plan that are tailored specifically based on business needs.</p> <p>These documents will then feed into the BCM and forms part of a holistic document.</p> <p>The CEO and members of the Executive Team have been briefed and support additional work to be undertaken.</p> <p>Responsible Official: Manager Corporate Strategy and Systems</p> <p>Implementation Date: December 2015</p>

3.2.2 Crisis Management and Business Continuity Response Plan

3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
<p>a. BCP Plan Objectives, Scope and Plan Activation</p> <p>The current Crisis Management and Business Continuity Response Plan does not include specific objectives to be achieved and scopes to be covered as part of the business continuity plan.</p> <p>We also noted that the activation of Crisis Management and Business Continuity Response Plan is currently based on business interruption that is estimated to be longer than one working day. There is no basis to determine the reasonable timeframe for plan activation as currently MAO for critical business functions has not been determined.</p>	<p>Inadequate BCP could result in:</p> <ul style="list-style-type: none"> • Inability to maintain critical business functions; • Damage to reputation or image; • Failure to protect assets and personnel; • Business control failure; • Failure to meet contractual or regulatory requirements; • Delay in recovery of business operations. 	<p>We recommend that the plan should specify the objective and scope to be covered as part of the business continuity plan.</p> <p>MAO for critical business functions should be determined and used as a basis to decide the plan activation.</p>	<p>Management Action:</p> <p>The sub plan for each area should initiate a process to identify critical risk to the business function. An estimate of the issue and perceived down time to the operation should then be feed to the CEO and Executive in preparation for the possible implementation of the BCM.</p> <p>Responsible Official:</p> <p>Manager Corporate Strategy and Systems</p> <p>Implementation Date:</p> <p>December 2015</p>
<p>b. Clear roles and responsibilities</p> <p>Clear roles and responsibilities for relevant parties involved in Crisis Management and Business Continuity Response Management had not been adequately defined in the current Crisis Management and Business Continuity Response Plan. For examples</p> <ul style="list-style-type: none"> • Executive Management Team 	<p>Lack of accountability of staff from fulfilling their roles and responsibilities</p>	<p>Management should consider enhancing the current Plan to include a section on description of role and responsibilities of the Crisis Management and Business Continuity team and its members. This will helps staff with CR and BC</p>	<p>Management Action:</p> <p>Agreed.</p> <p>Responsible Official:</p> <p>Manager Corporate Strategy and Systems</p>

3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
<ul style="list-style-type: none"> Internal Support Team Admin Support Team Emergency response staff i.e. Chief Fire Warden, Deputy Fire Warden, Fire Warden, OSH Representative, First Aid Officer Relevant managers and staff <p>In addition, we noted that there is no designated BC Coordinator and Owner of the Business Continuity Management plan and process.</p>		<p>responsibilities have clear understanding of their before/during/after the crisis or disaster event role and responsibilities.</p> <p>A BC Manager/Coordinator should be formally appointed to own the BCM plan and process.</p>	<p>Implementation Date:</p> <p>December 2015</p>
<p>c. Command Centre</p> <p>On the declaration of a Crisis or Business Continuity Events, no command centre was designated in the current Crisis Management and Business Continuity Response Plan nor was the resource requirement for this centre planned.</p>	<ul style="list-style-type: none"> Delayed in recovery process if Command Centre and the resource requirement are not planned in advance. Reputational risk of not appropriately dealing under a crisis. 	<p>We recommend that a Command Centre should be pre designated as part of the BC strategy and the requirements to operate the command centre should be determined and documented in the plan.</p>	<p>Management Action:</p> <p>Agreed. However the following is noted:</p> <p>The current BCP identifies the Admin building, Nedlands main library and the Depot as three main locations that can accommodate a crisis centre. We will update and amend the current BCP to have clear requirement and pre designation of Command Centre in BC strategies that are catered for various disaster scenarios.</p> <p>In City of Nedlands, all communication infrastructures including the phone systems are cloud based, each council site is</p>

3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
			<p>fully capable of delivering a crisis centre.</p> <p>Responsible Official: Manager Corporate Strategy and Systems</p> <p>Implementation Date: December 2015</p>
<p>d. Business Continuity Strategy and Response</p> <p>We noted the loss scenarios such as loss of people, loss of building, infrastructure and equipment, loss of IT or communications and loss of supplier have been determined in the plan.</p> <p>However, no detailed business continuity strategy and response options were noted for each of these scenarios other than the checklist which list the task items.</p>	<ul style="list-style-type: none"> • Delayed in recovery process if the strategy and response options are not planned in advance. • Reputational risk for the City. 	<p>We recommend that the plan should descriptive instruction on the response options for each of these scenarios.</p> <p>For example in the event of loss of people due to pandemic event. The pandemic response procedures should be included as part of the plan.</p>	<p>Management Action: Agreed.</p> <p>Responsible Official: Manager Corporate Strategy and Systems</p> <p>Implementation Date: December 2015</p>

3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
<p>e. Site's office emergency plan</p> <p>We understand that the site's office maintained an emergency plan that is relevant to the site. There is no clear link between the overarching Crisis Management and Business Continuity Plan and the site's emergency plan and direction on which plan should be used in the event of emergency.</p>	<p>Create confusion in the event of emergency.</p>	<p>The overarching Crisis Management and Business Continuity Plan should provide clear reference to site's emergency plan and direction on which plan to follow in the event of emergency.</p>	<p>Management Action:</p> <p>In the event of an emergency, area wardens have a plan to manage staff evacuation to assembly point. This will be the first line of defence.</p> <p>We will update the Crisis Management and Business Continuity Plan to provide clear reference to the site's emergency plan and removed the Emergency contact information from the CM and BCP to avoid maintenance of duplicate information in both plans.</p> <p>We will also advise the emergency plan holder to update the emergency plan to include the reporting to CM and BCP team for deciding on activation of the CM and BCP.</p> <p>Responsible Official:</p> <p>Manager Corporate Strategy and Systems</p> <p>Implementation Date:</p>

3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
December 2015			
<h4>3.2.3 IT DRP Testing</h4>			
<p>The IT disaster recovery testing was conducted in November 2014.</p> <p>We were advised that there was no major issue encountered during the IT DPR testing.</p> <p>From the review of the IT DRP test procedures, we noted the following exceptions:</p> <ul style="list-style-type: none"> no test strategy that includes documented test plans and related testing scenarios, methods, and schedules; no formal test result that described the detailed testing and outcome for IT DRP testing; 	<ul style="list-style-type: none"> Without proper test documentation, we are unable to gain assurance that the test has been conducted successfully and all test issues have been appropriately follow-up and closed off. Risk that not all risks properly tested Risk that any unsatisfactory results have not been properly reported. 	<p>We recommend that Management should consider implementing the following:</p> <ul style="list-style-type: none"> Formalised the test strategy, plan and result for IT DRP testing conducted. <p>The testing program should include a range of test approaches from desk-top “walk-throughs”, individual component testing (e.g.</p>	<p>Management Action: Agreed.</p> <p>Responsible Official: Manager Corporate Strategy and Systems</p> <p>Implementation Date: December 2015</p>

3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
<ul style="list-style-type: none"> no business users involvement in the IT DRP testing to confirm that they are able to successfully logon to the system at DR site and the applications are functioning as expected; no post testing de-brief and report that detailed the observation, issues, gap analysis performed and lesson learned. 		<p>IT equipment), through to fully integrated tests covering the whole City and including third party service providers.</p> <p>Testing scenario, objectives and procedures should be developed and clearly documented.</p> <p>The minimum testing requirements should include, but not be limited to:</p> <ul style="list-style-type: none"> ➤ Communication plans ➤ Alternate site activation ➤ Data backup and recovery ➤ Physical and computer security; and ➤ Recovery of critical business functions <ul style="list-style-type: none"> The test should involve business users to conduct the business testing for example business user logon to the business application to ensure that the 	

3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
		<p>application is functioning as expected after the system failover to DR server;</p> <ul style="list-style-type: none"> • Prepared test schedules for the DRP tests; • Conduct a test de brief, document issue log and lesson learned. • The City should also provide test results on an annual basis (at minimum) and these should be reported to responsible senior management and the Board of Directors or its responsible Committee. 	
3.2.4 BCP and DRP training			
<p>We noted that there is no predefined BCP and IT DRP training and refresher course for staff that have responsibility in relation to execution and management of BCP and IT DRP process.</p> <p>We were advised staff awareness on BCP and IT DRP was raised through the induction training. However, we noted that the staff induction training material does not include the BCP/IT DRP information.</p>	<p>Lack of awareness and understanding of the BCP and DRP process could result in</p> <ul style="list-style-type: none"> • Staff lacking confidence in carrying out the tasks in the event of crisis or disaster; • Staff taking longer time to complete the recovery tasks; 	<p>We recommend the Management to consider implementing the following:</p> <ul style="list-style-type: none"> • A training program and refresher course in relation to BCP and IT DRP; • Staff with specific responsibility for the business continuity management program 	<p>Management Action:</p> <p>We intend to conduct work area reviews, develop documents then familiarise the BCP process by going through the BCP exercise and testing with the staff. This will be reviewed every 2 years.</p> <p>Responsible Official:</p>

3.2 Medium Risk-Rated Findings

Finding	Risk/Impact	Recommendation	Management Comment
	<ul style="list-style-type: none"> Staff not knowing what to do in the event of crisis or disaster. Delay in the recovery process due to the above. 	<p>should undertake the necessary training to ensure they are able to competently fulfil their responsibilities;</p> <ul style="list-style-type: none"> The training requirements should be included in the performance objectives of responsible individuals; <p>The induction training material should include information on BCP/IT DRP.</p>	<p>Manager Corporate Strategy and Systems</p> <p>Implementation Date: December 2015</p>

3.3 Low Risk-Rated Findings

None noted.

4. Observations

Observations	Improvement Opportunity	Management Comment
4.1 BCP Plan Maintenance		
<p>From our discussion with IT Manager, the Crisis Management and Business Continuity Response Plan is reviewed and updated on an annual basis or on needs basis. The last update was done in March 2015 for the contact changes. The change history was not updated in the document control section of the plan.</p> <p>In addition, the current plan does not adequately define the plan maintenance procedures. We were advised that the person who previously coordinates the BCP matters has left the organisation.</p>	<p>We suggest that management record all the change history and version number in the Document Control section rather than on the front page of the BCM Plan. Without proper version control of the document may create confusion on the correct document to use in the event of disaster or emergency.</p> <p>The Management should also define the plan maintenance procedures in the BCM policy for continuing management and monitoring.</p> <p>A designated staff should be appointed and trained in coordinating and maintaining the plan.</p>	<p>Management Action: Agreed.</p> <p>Responsible Official: Manager Corporate Strategy and Systems</p> <p>Implementation Date: December 2015</p>
4.2. Improvement on the Crisis Management & Business Continuity Response Plan		

Observations	Improvement Opportunity	Management Comment
<p>From our review of the City's Crisis Management & Business Continuity Response Plan, we noted the plan does not includes the following:</p> <ul style="list-style-type: none"> • A decision tree approach to help guide the management team under situation of intense pressure; • Overall Crisis Management, Business Continuity Management and Emergency team organisation structure; • Incident escalation procedures involve appropriate civil authorities and other external Agencies; • Procedures for handling the media and communications with internal and other external parties (e.g. media enquiry, press release, telephone redirection authorisation); • The notification details that the responsible officer required to provide to Emergency Management Team Director when notified the event for example <ul style="list-style-type: none"> ➤ Nature of the incident - time informed etc. ➤ Describe business elements impacted (critical functions) ➤ Facility/equipment impacted ➤ Staff ➤ Any actions implemented ➤ Any media involvement/interest ➤ Any immediate support requirements etc. • A glossary for technical term relating to the business continuity is not maintained in the plan for better understanding. 	<p>The management should consider enhancing the current plan to incorporating the points suggested in 4.2 observations section.</p>	<p>Management Action: Agreed.</p> <p>Responsible Official: Manager Corporate Strategy and Systems</p> <p>Implementation Date: December 2015</p>

5. KEY ENGAGEMENT DETAILS & TIMINGS

Key engagement details

Date Final Report Issued 28/07/2015

Review Period Covered 1 Jan 2014 to 31 December 2014

BDO Engagement Director Wayne Basford

Draft Report to be issued to Client Sponsor Michael Cole

Key engagement timings

Key Events	Expected Date	Actual Date	Comments on Variations
Planning Meeting	03/03/2015	03/03/2015	
Fieldwork commencement	18/03/2015	01/04/2015	Rescheduled of fieldwork.
Fieldwork completion	01/04/2015	04/05/2015	
Close out meeting	01/04/2015	28/06/2015	Due to staff unavailable.
Draft report sent	01/04/2015	25/05/2015	
Management Comments Received	07/04/2015	24/07/2015	
Final report issued	10/04/2015	28/07/2015	



Engagement participants

Name	Title
City of Nedlands	
Michael Cole	Corporate Strategy - Director
Mike Fletcher	Corporate Strategy and Systems - Manager
BDO	
Wayne Basford	Director
Lih Ling Ma	Senior Manager

6. RISK RATINGS

Overall report rating

Ratings awarded represent the conclusion of our audit based on the results of the audit of a process or audit area. The control environment has been rated using the following criteria.

Rating	Definition
Weak	No control framework in place. Significant control weaknesses were noted which have or may result in a material exposure. No compensating controls in place to mitigate the identified risks.
Marginal	Limited control framework in place. Significant control weaknesses were noted which have or may result in a material exposure.
Satisfactory	Overall a control framework is in place. Some improvements identified which would improve the control environment.
Good	Control environment in place with no improvements noted.

Rating individual findings

The following framework for audit ratings has been developed in order to prioritise the internal audit findings according to their relative significance, depending on their impact on a process. The individual audit findings contained in this report have been discussed and rated with management.

Rating	Definition
High	Issue represents a control weakness which could have or is having a major adverse effect on the ability to achieve process objectives.
Medium	Issue represents a control weakness which could have or is having a significant adverse effect on the ability to achieve process objectives.
Low	Issue represents a minor control weakness with minimal but reportable impact on the ability to achieve process objectives.
Observations	Issue represents an opportunity for management to consider in order to improve the effectiveness of the control environment.

7. INHERENT LIMITATIONS

Because of the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure within which the control procedures that are subject to internal audit operate is not reviewed in its entirety and, therefore, no opinion or view is expressed as to the effectiveness of the greater internal control structure. An internal audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are done on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, City of Nedlands management and personnel. We have indicated within this Review report the sources of the information provided. We have not sought to verify those sources independently unless otherwise noted within the Review report. We are under no obligation in any circumstance to update this internal audit report, in either oral or written form, for events occurring after the Review report has been issued in final form unless specifically agreed with management. The findings in this report have been formed on the above basis.

8. RESTRICTION OF USE

This report is solely for the purposes as set out in the Objectives of Review section of this report and is for the information of the City of Nedlands Council and management and is not to be used for any other purpose or distributed to any third party without BDO's prior written consent. BDO nor any member or employee of BDO undertakes responsibility arising from reliance placed by a third party on this report and any reliance placed is at that party's sole responsibility.

7.5 2015-16 ANNUAL RATES NOTICES AND RATE MODELLING

The Director Corporate and Strategy provided clarification on the cause of the rate modelling error and confirmed the budget shortfall was \$443,500 as per the report below, plus the \$207,000 deficit budget adopted by Council. The Director advised that the first review of the budget deficit would be after the finalisation of the annual accounts later this month. The Audit and Risk Committee asked that a further report be presented to the next meeting of the Audit and Risk Committee on actions proposed to address the shortfall.

The amended recommendation was put to the meeting.

Regulation 11(da) – The Audit and Risk Committee requested a report to the next meeting of the Audit and Risk Committee on the actions proposed to address the shortfall.

Moved – Mayor Hipkins

Seconded – Councillor McManus

Recommendation to Committee / Council

The Audit and Risk Committee:

- 1. receives the External Audit Plan for the year ended 30 June 2015; and**
- 2. requests a report to the next meeting of the Audit and Risk Committee on the actions proposed to address the shortfall.**

CARRIED UNANIMOUSLY 3/-

Background

In regards to rates income, an administrative error has been identified where 143 residential properties had been incorrectly valued for rate modelling purposes as both vacant land and developed land. This has resulted in actual rates raised being \$443,500 below the estimate adopted in the Annual Budget for 2015/16. This shortfall will be addressed as part of the Post Audit Budget review that will be presented to Council in October 2015.

Recommendation to the Audit and Risk Committee

The Audit and Risk Committee notes the action proposed to be taken by Administration to address the revenue shortfall.

8. Date of Next Meeting

The Date of the next meeting of this Committee is to be advised.

9. Declaration of Closure

There being no further business, the Presiding Member declared the meeting closed at 7.36pm.

A handwritten signature in black ink, appearing to read 'Greg Trevaskis', with a long horizontal flourish extending to the left.

Greg Trevaskis
Chief Executive Officer