



City of Nedlands

Minutes

Audit & Risk Committee Meeting

14 May 2018

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 & Risk Committee held in the Meeting Room at the City of Nedlands on Monday 14 May 2018 at 4 pm.

Audit & Risk Committee Agenda

Declaration of Opening

The Presiding Member declared the meeting open at 4.02 pm and drew attention to the disclaimer below.

(NOTE: Council at its meeting on 24 August 2004 resolved that should the meeting time reach 11.00 p.m. the meeting is to consider an adjournment motion to reconvene the next day).

Present and Apologies and Leave of Absence (Previously Approved)

Councillors	Councillor I S Argyle	Dalkeith Ward (Presiding Member)
	His Worship the Mayor	R M C Hipkins
	Councillor B G Hodsdon (arrived 4.07 pm)	Hollywood Ward
	Councillor L J McManus	Coastal Districts Ward
	Mr R Senathirajah	Community Member
	Mr P Setchell	Community Member

Staff	Mr G K Trevaskis	Chief Executive Officer
	Mrs L M Driscoll	Director Corporate & Strategy
	Mrs V Jayaraman	Manager Financial Services
	Mr A D Melville	Manager Health & Compliance
	Mrs S C Gibson	PA to Director Corporate & Strategy

Invitees	Mr A Hillbeck	BDO
	Mr R Bronkhorst (dial in)	BDO
	Miss J Chiang	BDO

Public There were no members of the public present.

Press There were no members of the press present.

Leave of Absence (Previously Approved) None at distribution of agenda.

Apologies	Councillor G A R Hay	Melvista Ward
	Mr K Eastwood	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 questions from the public.

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

There were no addresses made by members of the public.

3. Disclosures of Financial Interest

The Presiding Member reminded Councillors and Staff of the requirements of Section 5.65 of the Local Government Act to disclose any interest during the meeting when the matter is discussed.

There were no disclosures of financial interest.

4. Disclosures of Interests Affecting Impartiality

The Presiding Member reminded Councillors and Staff of the requirements of Council's Code of Conduct in accordance with Section 5.103 of the Local Government Act.

There were no disclosures affecting impartiality.

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

Nil.

6. Confirmation of Minutes

6.1 Audit & Risk Committee Meeting 22 February 2018

Moved – Councillor McManus

Seconded – Mayor Hipkins

The minutes of the Audit & Risk Committee held 22 February 2018 be confirmed.

**CARRIED 4/-
Abstained: Mr P Setchell**

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.

Councillor B G Hodsdon arrived at 4.07 pm.

7.1 BDO Audit – Financial Application Control Review

Owner	City of Nedlands
Officer	Andrew Melville - Manager Health & Compliance
Director	Lorraine Driscoll – Director Corporate & Strategy
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
Attachments	1. BDO Audit (WA) Pty Ltd – Financial Application Control Review

Moved – Councillor Hodsdon

Seconded – Mr P Setchell

Committee Recommendation / Recommendation to the Audit and Risk Committee

The Audit and Risk Committee receives the Financial Application Control Review and notes the finding and recommendation of the Audit and the actions proposed by Administration. A progress report is to be provided in late September

CARRIED UNANIMOUSLY 6/-

Executive Summary

BDO Audit (WA) Pty Ltd are the City’s appointed Internal Auditors. As part of an agreed Internal Audit plan, BDO Audit (WA) Pty Ltd have conducted a number of internal audits across various business areas within the City. This report seeks to provide the Committee with an update on the findings of the Financial Application Control Review.

Background

BDO Audit (WA) Pty Ltd are the City’s appointed Internal Auditors and in accordance with the 2017/18 Internal Audit Annual Plan have facilitated a Review of the City’s financial application control processes.

An Audit is a process through which internal control effectiveness is examined and assessed. The objective is to provide an Audit for compliance with relevant management policies and procedures. The assessment is conducted with input from city personnel and is facilitated by the BDO Audit Team.

The attached report contains details of the issues raised and management’s comments.

The Financial Application Control Review is presented to the Audit and Risk Committee for their information.

CITY OF NEDLANDS
Financial Application Control Review

December 2017

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1. EXECUTIVE SUMMARY

1.1 Objective

In accordance with the 2017/18 Internal Audit Plan, the key objectives of this audit were to assess the design effectiveness and efficiency of controls and processes within the Authority Financial Application to assess compliance with Application policies, procedures, best practices, and regulatory requirements.

1.2 Scope

The scope of this audit were to review the City of Nedlands Authority Financial Application for the period 1 January to 31 October 2017, and included:

- Existing Financial Application control policies, procedures and practices within the city (design effectiveness)
- Compliance with policies, procedures and processes through limited sample testing (operating effectiveness).

1.3 Approach

Our approach included:

- Met with the City to agree the Terms of Reference
- Obtained and reviewed copies of all relevant, authorised policies and procedures
- Conducting interviews and walkthroughs with the Manager of Finance, Accounts Receivable Officer, Accounts Payable Officer, IT Coordinator and System and Network Administrator and documented key processes and controls
- Evaluated the design effectiveness and adequacy of key controls identified
- Performed sample testing where appropriate
- Conducted site visit to City of Nedlands Data Centre in Malaga
- Prepared weekly status report to provide audit status updates
- Prepared and issued our draft for management comments
- Reviewing management comments and issuing final report.

1.4 Conclusion

We identified improvements that can be made by implementing governance processes in various areas of the Financial Application Control, specifically in relation to Application Governance, Contract Management, Security, Disaster recovery and Application controls.






We identified 3 high risk and 2 medium risk findings. Please refer to the section 1.4 for a Summary of Findings and section 2 for Detailed Findings and Recommendations in this report for more details.

We have completed our internal audit of the Financial Application and have summarised assurance provided from our work in relation to the existing control environment, and our specific recommendations in the tables below.

LEVEL OF ASSURANCE - DESIGN EFFECTIVENESS (SEE SECTION 4 FOR DETAILED DEFINITIONS)	LEVEL OF ASSURANCE - OPERATIONAL EFFECTIVENESS (SEE SECTION 4 FOR DETAILED DEFINITIONS)
Limited 	Limited 

1.5 Summary of key findings



Our review identified 2 'High' rated findings and 3 'Medium' rated findings. These are summarised in the table below. The detailed findings and recommendation are further explained in Section 2 of this report.

SUMMARY OF RECOMMENDATIONS (SEE SECTIONS 2 FOR DETAILED FINDINGS AND RECOMMENDATIONS)	RISK SIGNIFICANCE (SEE SECTION 4 FOR DEFINITIONS)
1. Improve Application Governance and Management	Medium 
2. Improve Application Contract Management	High 
3. Improve Application Security Management	High 
4. Improve Disaster Recovery, Back-up and Recovery Processes	Medium 
5. Improve Application Controls	Medium 


1.6 Acknowledgement


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


1.7 Acceptance of Report

On behalf of:	City of Nedlands	BDO
Signature:		
Name:	Greg Trevaskis	Andrew Hillbeck
Title:	Chief Executive Officer	Partner
Date:	4 th May 2018	4 May 2018

2. DETAILED FINDINGS & RECOMMENDATIONS

1. Improve Application Governance and Management			Risk Rating: Medium 
Finding	Risk/Impact	Recommendation	Management Comment
<p>There are no relevant and up to date, documented policies and procedures to support the management and Governance of the Authority application that include Information Security, data management, IT asset management, IT risk management and change management within the City.</p>	<ul style="list-style-type: none"> IT assets being ineffectively managed and potential breaches of legal and regulatory requirements Inefficient and ineffective management over IT infrastructure, facilities, hardware, software, and services Security breaches, inappropriate access and unauthorised use of resources IT risks being ineffectively identified, managed, mitigated and reported Change requests are inaccurately analysed, causing adverse effects to the business or technology assets 	<p>We recommend that:</p> <p>Management design and implement an IT governance framework that is aligned to existing City governance structures and relevant IT and management frameworks, standards and best practices, such as Risk, Policy, Security and Change Management. This will ensure standardised processes, greater efficiencies, reduced duplication of effort, and increased formal processes and controls</p>	<p>Management Action:</p> <p>The City is in the process of reviewing 24 draft copies of policies (8 active) and procedures for both Information Technology and Information Management for approval. The drafts will be presented to the Executive team for their review and approval and then will be published as active policies/procedures to comply with the audit report, mitigate any associated risk, security and change management that has been identified by the audit. Copies of all draft policies have been forwarded to BDO and have been reviewed by Macri Partners as part of the external audit process.</p> <p>For the reasons described above the City’s management consider this to be deserving of a MEDIUM Risk Rating.</p> <p>Responsible Official:</p> <p>Manager of Corporate Strategy and Systems</p>

1. Improve Application Governance and Management			Risk Rating: Medium 
Finding	Risk/Impact	Recommendation	Management Comment
			Implementation Date: June 2018

2. Improve Application Contract Management			Risk Rating: High 
Finding	Risk/Impact	Recommendation	Management Comment
<p>While the City has a written “Software Support Agreement” with Authority, we identified that this agreement is out of date and has not been reviewed and updated since September 1998. Furthermore, the existing agreement does not include any reference to confidentiality and or security requirements.</p> <p>There are currently no policies, procedures or guidelines relating to the monitoring or review processes in place to evaluate and review the service performance of external providers.</p>	<ul style="list-style-type: none"> • Activities being outsourced to a third-party who is unable to perform the activities in accordance with service, legal, and regulatory requirements introducing additional risks to the City • Financial losses, reputational damage and an inability to enforce performance expectations • Financial losses and reputational damage caused by a breach to data confidentiality, integrity or availability. 	<p>We recommend that:</p> <p>Policies and Service Level Agreement’s (SLA) / Contracts should be developed, approved and regularly reviewed to adjust for changes in the City’s business environment and signed by appropriate representatives from all relevant parties responsible for service delivery and monitoring.</p> <p>SLA’s should include:</p> <ul style="list-style-type: none"> • Clearly defined roles and responsibilities, and defined terms for addressing performance issues • Confidentiality and Security agreements • Clearly defined Key Performance Indicators (KPIs), which are monitored and reported against contractual 	<p>Management Action:</p> <p>The Director Corporate & Strategy identified a number of months earlier that significant time needed to be spent in developing a ‘partnership’ style relationship with Civica. Meetings have been held with the most senior team at Civica at which the DCS has highlighted a number of business improvements that should form part of a new Service Level Agreement. The DCS has also been identified by Civica as a key member of their ‘Strategic Council Forum’ (only 5 other Councils in Aus and NZ participate)- at which there is an opportunity to provide open honest feedback about the relationship and expectations of Civica.</p>

2. Improve Application Contract Management			Risk Rating: High ▲
Finding	Risk/Impact	Recommendation	Management Comment
		<p>requirements and strategic objectives.</p> <ul style="list-style-type: none"> Contract termination procedures and contingency plans to address potential failed vendor performance. 	<p>Other initiatives that have been planned are system health checks, user training and potential system upgrades</p> <p>The DCS has been very proactive in addressing this issue and has set a number of processes in place to address this issue. It is for these reasons that the City's management consider this to be deserving of a MEDIUM Risk Rating.</p> <p>Responsible Official: Manager of Corporate Strategy and Systems</p> <p>Implementation Date: June 2018</p>


3. Improve Application Security Management			Risk Rating: High ▲
Finding	Risk/Impact	Recommendation	Management Comment
<p>The City has no formal policies or procedures in place to enforce the acceptable use of IT resources or to ensure that only authorised users are granted access based on business needs and job-related functions. We identified that existing user profiles are copied to grant new users access to the application</p> <p>Further to the above, we have identified:</p> <ul style="list-style-type: none"> 153 users have “Open Database Connections” (ODBC) to the existing authority database. We could not confirm the specific access privileges and or if these connections are encrypted and adequately secured 7 Users have “Administrative” user access to the application <p>We could not confirm if the user password file is securely protected and encrypted (A request were send Authority to verify - At the time of this audit, we did not receive a response). However, IT should be aware of the safeguards and controls in place to ensure password file security and controls</p>	<ul style="list-style-type: none"> Unauthorised disclosure, changes and transaction processing Invalid, incomplete and fraudulent data transfer and processing Unauthorised access leading to segregation of duties issues and the ability to perform unauthorised or inappropriate activities and transactions Unprotected ODBC connections increase risk of unauthorised access to data, changes or deletion of database records Financial losses and reputational damage caused by a breach to data confidentiality, integrity or availability 	<p>We recommend that:</p> <ul style="list-style-type: none"> Access management and acceptable use policies are implemented Application access is managed, monitored and reviewed to ensure only authorised individuals are granted access based on business need ODBC authentication are investigated and reviewed to ensure implementation is required and or configured according to best practice and relevant security requirements to prevent unauthorised and or privilege access to database records Review administrative user accounts and restrict to an appropriate number of administrators based on business need Verify and confirm that application password file is appropriately protected and encrypted 	<p>Management Action:</p> <p>Nedlands has requested CIVICA for general Authority policies to confirm the user password file is securely protected and encrypted.</p> <p>Also, Information Technology can confirm that the windows file structure is secure and have put in place system file access permissions to safe guard.</p> <p>Responsible Official: Manager of Corporate Strategy and Systems</p> <p>Implementation Date: June 2018</p>


4. Improve Disaster Recovery, Back-up and Recovery Processes

Risk Ratings: Medium



Finding	Risk/Impact	Recommendation	Management Comment
<p>The City currently have a documented Business Continuity Plan (BCP), which include Incident management procedures. However, the City does not have a clearly defined up to date Disaster Recovery Plan (DRP) or backup policy and procedures in place to ensure recovery of information assets to deliver normal business services</p>	<ul style="list-style-type: none"> • Loss of data and inability to support business operations • Ineffective ability to deliver normal business services, causing financial and reputation damage • Breaches of legal and regulatory requirements • Security breaches, inappropriate access and unauthorised use of resources 	<p>We recommend that:</p> <ul style="list-style-type: none"> • DRP are documented, reviewed, updated, approved, periodically tested, and communicated to stakeholders • Backup and restore procedures are documented and reviewed on a periodic basis • Roles and responsibilities for managing back-up operations are clearly defined and delegated • Backup and restore work orders are scheduled, completed, reviewed and backup integrity is verified 	<p>Management Action:</p> <p>City's Disaster Recovery Plan (DRP) is currently being developed by the Manager of Corporate and Strategy. Further current Information Controls and Technology draft policies include Disaster Recovery, contingency planning, backups, replication, redundancy, data recovery, Emergency response will be approved and published as active.</p> <p>Responsible Official:</p> <p>Manager of Corporate Strategy and Systems</p> <p>Implementation Date:</p> <p>June 2018</p>

5. Improve Application Controls			Risk Rating: Medium 
Finding	Risk/Impact	Recommendation	Management Comment
<p>The Authority system lack functionality to support efficient and effective business transactional processing</p> <p>We have identified that</p> <ul style="list-style-type: none"> No input validation and or data integrity system controls are in place to ensure complete and accurate data input and error correction or reporting User have to manually calculate and input Accounts receivable pricing information Manual checks need to be performed by staff outside the system as the system workflow does not support the current business process 	<ul style="list-style-type: none"> Invalid and incomplete data input and processing Compromised data integrity due to human error Ineffective and inefficient workflows due to manual processing and controls maintained outside of the system 	<p>We recommend that:</p> <ul style="list-style-type: none"> Data verification and input controls be implemented in the system to ensure accuracy and validity of system transaction data input System to be configured to perform automated transactional calculations and reconciliations where appropriate System controls be implemented to minimise manual controls outside of the system 	<p>Management Action:</p> <p>City is in the process of engaging with CIVICA to review the controls that are available within the system. Also, City is restricted by the requirements to implement the “work order” module which would allow Nedlands to implement further online processing in certain modules to reduce the manual input. Proposed “work order” module implementation is scheduled next Financial year. A proposed booking system implementation is scheduled in this Financial Year for further reduction in manual calculation and input of invoices for fees and charges.</p> <p>City’s Finance department will implement manual data verification and input by having oversight by an independent Finance Officer to reduce the invalid and incomplete data input and processing and compromised data integrity.</p>

5. Improve Application Controls			Risk Rating: Medium 
Finding	Risk/Impact	Recommendation	Management Comment
			<p>Responsible Official: Manager of Corporate Strategy and Systems and Manager of Finance</p> <p>Implementation Date: June 2018</p>

3. KEY ENGAGEMENT DETAILS & TIMINGS





Review Period Covered	1 Jan 2017 to 31 October 2017
BDO Engagement Partner	Andrew Hillbeck
Report to be issued to Client Sponsor	Greg Trevaskis

Key Events	Expected Date	Actual Date	Comments on Variations
Fieldwork commencement	5 December 2017	5 December 2017	
Fieldwork completion	15 December 2017	15 December 2017	
Closing meeting	21 December 2017	18 December 2017	
Draft report sent	5 January 2018	20 December 2017	
Management Comments Received	12 January 2018	8 February 2018	
Final report issued	19 January 2018	9 February 2018	




Engagement participants

Name	Title
City of Nedlands	
Vanaja Jayaraman	Acting Manager of Finance
Daniel Wong	Accounts Receivable Officer
Qurban Ali	Accounts Payable Officer
Nalin Dias	IT Coordinator
Jonathan Filippone	Systems and Network Administrator
BDO	
Andrew Hillbeck	Partner
Riaan Bronkhorst	Manager
Jessica Chiang	Senior Consultant

4. RISK RATINGS

LEVEL OF ASSURANCE	DESIGN of internal control framework	
	Findings from review	Design Opinion
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.
Moderate 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.
None 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	No system of internal control.

Risk Significance

- High  A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
- Medium  A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
- Low  Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

5. 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 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.

6. RESTRICTION OF 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.

7.2 BDO Audit – Financial Processes Review

Owner	City of Nedlands
Officer	Andrew Melville – Manager Health and Compliance
Director	Lorraine Driscoll – Director Corporate & Strategy
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
Attachments	1. City of Nedlands Financial Processes Review

Moved – Councillor Hodsdon
 Seconded – Mr Setchell

Committee Recommendation / Recommendation to Committee

The Audit and Risk Committee receives the Financial Processes Review and notes the finding and recommendation of the Audit and the actions proposed by Administration.

CARRIED UNANIMOUSLY 6/-

Executive Summary

The attached Financial Processes Review report contains details of the issues raised in a recent Audit completed by BDO, the City’s internal Auditors and also includes management’s comments.

The Financial Processes Review is presented to the Audit and Risk Committee for their information.

Discussion/Overview

BDO Audit (WA) Pty Ltd are the City’s appointed Internal Auditors and in accordance with the 2017/18 Internal Audit Annual Plan have facilitated a Review of the City’s financial processes.

An Audit is a process through which internal control effectiveness is examined and assessed. The objective is to provide an Audit for compliance with relevant management policies and procedures. The assessment is conducted with input from city personnel and is facilitated by the BDO Audit Team.

The attached report contains details of the issues raised and management’s comments.

The Financial Processes Review is presented to the Audit and Risk Committee for their information.

Key Relevant Previous Council Decisions:

Nil.

Consultation

Nil.

Budget/Financial Implications

Nil.

Any actions requiring expenditure that is not allocated to an existing budget will be considered by Council during budget deliberations.

19 April 2018

Mr Greg Trevaskis
Chief Executive Officer
City of Nedlands
71 Stirling Highway
Nedlands WA 6009

Dear Greg,

City of Nedlands - Financial Processes (Accounts Payable, Procurement and Contract Management) Review

We write to advise you of the completion of our internal audit of the City of Nedlands' Financial Processes (Accounts Payable, Procurement and Contract Management) Review. This internal audit has been conducted in accordance with our agreed Terms of Reference dated 8 February 2018. We now enclose our report which details the findings and recommendations.

Should you have any queries in relation to this report please do not hesitate to contact either myself on (08) 6382 4750 or Riaan Bronkhorst on (08) 6382 4704.

Yours faithfully,
BDO Advisory (WA) Pty Ltd



Andrew Hillbeck
Partner

Encl.



CITY OF NEDLANDS
Financial Processes Review

March 2018



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1. EXECUTIVE SUMMARY

1.1 Objective

In accordance with the 2017/18 Internal Audit Plan, the key objectives of this audit were to assess the design effectiveness and efficiency of controls and processes of Accounts Payable, Procurement and Contract Management to assess compliance with the respective policies, procedures, best practices, and regulatory requirements.

1.2 Scope

The scope of this audit were to review the City of Nedlands Financial Processes (Accounts Payable, Procurement and Contract Management) for the period 1 July 2017 to 31 December 2017, and included:

- Existing Financial Processes (Accounts Payable, Procurement and Contract Management) policies, procedures and practices within the city (design effectiveness)
- Compliance with policies, procedures and processes through limited sample testing (operating effectiveness).

1.3 Approach

Our approach included:

- Meeting with the City's personnel to agree the Terms of Reference
- Obtained and reviewed copies of all relevant, authorised policies and procedures
- Conducting interviews and walkthroughs with the Manager of Finance, Accounts Payable Officer, Acting Coordinator Financial Accounting, Purchasing and Procurement Coordinator and documented key processes and controls
- Evaluating the design effectiveness and adequacy of key controls identified
- Preparing weekly status report to provide audit status updates
- Preparing and issued our draft for management comments
- Reviewing management comments and issuing final report.



1.4 Conclusion

We identified improvements that can be made by implementing governance processes in various areas of the Financial Processes (Accounts Payable, Procurement and Contract Management).

We identified 4 'Medium' rated findings and 4 'Low' rated findings. Please refer to the section 1.4 for a Summary of Findings and section 2 for Detailed Findings and Recommendations in this report for more details.








We have completed our internal audit of the Financial Application and have summarised assurance provided from our work in relation to the existing control environment, and our specific recommendations in the tables below.

Financial Process	LEVEL OF ASSURANCE - DESIGN EFFECTIVENESS (SEE SECTION 4 FOR DETAILED DEFINITIONS)	LEVEL OF ASSURANCE - OPERATIONAL EFFECTIVENESS (SEE SECTION 4 FOR DETAILED DEFINITIONS)
Accounts Payable	Limited 	Limited 
Procurement and Contract Management	Limited 	Limited 

1.5 Summary of key findings



Summarised summary of our findings is included in the table below. The detailed findings and recommendation are further explained in Section 2 of this report.

SUMMARY OF RECOMMENDATIONS (SEE SECTIONS 2 FOR DETAILED FINDINGS AND RECOMMENDATIONS)	RISK SIGNIFICANCE (SEE SECTION 4 FOR DEFINITIONS)
Accounts Payable	
1. Improve control over Purchase order explanatory notes process	Medium 
2. Improve user access for the Accounts Payable module in Authority (Recurring Finding - Report dated 29 January 2016)	Medium 
3. Create and implement documented Accounts Payable policy and procedures (Recurring Finding - Report dated 29 January 2016)	Medium 
Procurement and Contract Management	
4. Improve user access control to the contract register in SharePoint	Medium 
5. Improve control over tender register documentation	Low 
6. Review, update and implement the contract condition	Low 
7. Improve the Procurement and Contract management function	Low 
8. Review, update and implement contract management procedure	Low 


1.6 Acknowledgement


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


1.7 Acceptance of Report


On behalf of:	City of Nedlands	BDO
Signature:		
Name:	Greg Trevaskis	Andrew Hillbeck
Title:	Chief Executive Officer	Partner
Date:	20 April 2018 .	23 April 2018


2. DETAILED FINDINGS & RECOMMENDATIONS


1. Improve control over Purchase order explanatory notes process			Risk Rating: Medium 
Finding	Risk/Impact	Recommendation	Management Comment
<p>We performed a process walkthrough of the Accounts Payable process.</p> <p>Through our observation and discussion of the “explanatory note - purchase order raised after receipt of goods/service/invoice” form, we identified that the Workshop Coordinator has the authority to approve as the “Requisitioner” and “Approver” on the same manual form.</p>	<p>Increased risk of unauthorised transactions results in financial and reputational loss.</p>	<p>Management to reassess the authority of approval based on the respective roles and responsibilities. The “Requisitioner” should always be independent of the “Approver”.</p>	<p>Management Action:</p> <p>The system set-up is that any approving officer who raises a requisition approves the requisition. In some business units, such as the Workshop, the authorising officer is the Workshop Coordinator but he is also the only 1 who can raise the requisition.</p> <p>We discourage approving officers from raising requisitions unless there are no alternative requisitioners.</p> <p>Although the requisitions are raised by an approving officer get approved automatically, there is adequate control as a Finance Officer reviews all requisitions before they are approved.</p> <p>Management will continue to remind approving officers not to raise the requisitions, through regular emails and newsletters.</p> <p>Responsible Official:</p> <p>Manager Financial Services</p> <p>Implementation Date:</p> <p>On-going</p>


2. Improve user access for the Accounts Payable module in Authority (Recurring Finding - Report dated 29 January 2016)			Risk Rating: Medium 
Finding	Risk/Impact	Recommendation	Management Comment
<p>We performed a process walkthrough and control gap analysis of the Accounts Payable process.</p> <p>Through our observation and discussion, we identified there are 7 staff with read, write and modify (full) access and 129 staff have read-only access to the Accounts Payable module in Authority. Specifically, these roles included:</p> <ul style="list-style-type: none"> • Manager Financial Services • 2 X Finance Officer (Accounts Payable) • Payroll Officer • Coordinator of Management Accounting • Acting Coordinator Financial Accounting • Finance Officer (AR, Assets and Insurance) 	<p>Increased risk of unauthorised transactions or errors that may not be detected leading to inaccurate transaction processing or financial loss.</p>	<p>Management should only provide Accounts Payable access to staff where it aligns with their roles and responsibilities.</p> <p>The staff responsible for the review of outputs from Authority should only be given read access to Authority.</p>	<p>Management Action:</p> <p>The Acting Coordinator and Finance Officer (AR, Assets and Insurance) were given full access during the time that they were performing back-up duties for the Accounts Payable Officer.</p> <p>We have since limited the following roles to access only queries: Payroll Officer, Acting Coordinator Financial Accounting and Finance Officer (AR, Assets and Insurance).</p> <p>Responsible Official:</p> <p>Manager Financial Services</p> <p>Implementation Date:</p> <p>April 2018</p>


3. Create and implement documented Accounts Payable policy and procedures (Recurring Finding - Report dated 29 January 2016)			Risk Rating: Medium 
Finding	Risk/Impact	Recommendation	Management Comment
<p>We performed a process walkthrough and control gap analysis of the Accounts Payable process.</p> <p>Through our observation and discussion, we identified that a documented policy and related procedures for Accounts Payable do not exist.</p> <p>We acknowledge that there are work instructions for Accounts Payable that provide guidance on how to perform day-to-day task</p>	<p>Increased risk of inconsistent practice within the business that may lead to financial loss and loss of intellectual property.</p>	<p>Management to create and implement documented policy and procedures for the Accounts Payable that outlined the below to meet current business operation needs:</p> <ul style="list-style-type: none"> • Introduction including purpose and scope of procedures, and reference documents • Roles and responsibilities 	<p>Management Action:</p> <p>We are in the process of implementing 'paperless' approval of invoices and the policy and procedures will be completed once the new processes are implemented.</p> <p>Responsible Official:</p> <p>Manager Financial Services</p> <p>Implementation Date:</p> <p>End of May 2018</p>


4. Improve user access control to the contract register in SharePoint			Risk Ratings: Medium 
Finding	Risk/Impact	Recommendation	Management Comment
<p>We performed a process walkthrough and control gap analysis of the Procurement and Contract Management process.</p> <p>Through our observation and discussion, we identified there are 202 active staff within the City that have read, write and modify (Full) access to the Contract Register within SharePoint.</p>	<p>Increased risk of unauthorised access to sensitive data and information that may not be detected leading to disclosure of sensitive information and potential financial loss.</p>	<p>Management to reassess the access level to the Contracts Register and reallocate the access according to staff roles and responsibilities.</p>	<p>Management Action:</p> <p>The City recognises that there is a risk, although governance controls exist through the audit capabilities of SharePoint. The city is satisfied with current governance standards on this area and has an officer responsible for the monitoring of the SharePoint Audit Trail and takes action as required.</p> <p>Responsible Official:</p> <p>Manager Financial Services</p> <p>Implementation Date:</p> <p>Nil</p>

5. Improve control over tenders register documentation			Risk Rating: Low 
Finding	Risk/Impact	Recommendation	Management Comment
<p>We performed a process walkthrough and control gap analysis of the Procurement and Contract Management process.</p> <p>Through our observation and discussion, we identified that the current tenders register documentation is only being maintained in manual hard-copy in a folder within the Finance team.</p>	<ul style="list-style-type: none"> Increased risk of delayed or incomplete data recovery that may lead to potential financial and reputation loss Loss of tenders documentation in the 	<p>Management to:</p> <ul style="list-style-type: none"> Determined the most efficient mechanism to store and back-up the tenders register documentary evidence electronically and reduce reliance on manual hard-copies 	<p>Management Action:</p> <p>The City will store the Tender Register in a fire-proof safe. The city will consider this issue further as part of its upcoming website review.</p> <p>Responsible Official:</p>

5. Improve control over tenders register documentation			Risk Rating: Low 
Finding	Risk/Impact	Recommendation	Management Comment
<p>Key Tenders register documentation include:</p> <ul style="list-style-type: none"> Request for Tender (RFT) number index Decision to Invite Tender/Expression of Interest form Tender Register form 	<p>event of natural disaster (e.g. theft, fire and etc.)</p>	<ul style="list-style-type: none"> Implement mechanism and retain tenders register documentary evidence in a central repository electronically. 	<p>Manager Financial Services</p> <p>Implementation Date: April 2018</p>

6. Review, update and implement the contract conditions			Risk Rating: Low 
Finding	Risk/Impact	Recommendation	Management Comment
<p>We performed a process walkthrough and control gap analysis of the Procurement and Contract Management process.</p> <p>Through our observation and discussion, we identified the current contract terms and conditions within the Request for Tender (RFT) document have not been reviewed.</p> <p>The Purchasing and Tenders Coordinator will determined the contract terms and conditions on a contract by contract basis by utilising the previous existing contract for each new Request for Tender (RFT).</p>	<p>Failure to secure up to date mandatory conditions and appropriate terms may lead to financial and reputation loss</p>	<p>Management to seek legal advice and expertise to review, update and implement up to date contract conditions to meet current business operation needs.</p>	<p>Management Action: Agreed. The city will review and implement standard contract conditions.</p> <p>Responsible Official: Manager Financial Services</p> <p>Implementation Date: December 2018</p>

7. Improve the Procurement and Contract management function			Risk Rating: Medium 
Finding	Risk/Impact	Recommendation	Management Comment
<p>We performed a process walkthrough and control gap analysis of the Procurement and Contract Management process.</p> <p>Through our observation and discussion, we identified the Procurement and Contract Management for Technical services is being performed by the Purchasing and Tenders Coordinator.</p> <p>However, the Procurement and Contract Management for other business division is being performed by personnel within each business division, by different staff members.</p>	<p>Increased risk of unauthorised and erroneous procurement and contract management activities that may lead to potential financial loss.</p>	<p>Management to review current procurement and contract management process and structure of the team performing them to ensure all procurement and contract management activities are performed consistently and being monitored appropriately.</p>	<p>Management Action:</p> <p>The Director Corporate & Strategy is currently reviewing all Corporate Compliance and Governance within the City and will be recommending a centralised organisation wide approach to contract management.</p> <p>Responsible Official:</p> <p>Director Corporate & Strategy</p> <p>Implementation Date:</p> <p>December 2018</p>

8. Review, update and implement contract management procedure			Risk Rating: Low 
Finding	Risk/Impact	Recommendation	Management Comment
<p>We performed a process walkthrough and control gap analysis of the Procurement and Contract Management process.</p> <p>Through our observation and discussion, we identified the documented policy for Procurement and Contract Management are not in place and the Contract Management procedure are currently in draft.</p>	<p>Increased risk of inconsistent practice within the business that may lead to financial loss and loss of intellectual property.</p>	<p>Management to create, finalise and implement documented policy and procedures for the Procurement and Contract Management that outlined the roles and responsibilities to meet current business operation needs.</p>	<p>Management Action:</p> <p>Agree, the contract management procedure is at a draft stage. A Procurement of Goods and Services Procedure is already in place.</p> <p>Responsible Official:</p> <p>Manager Financial Services</p> <p>Implementation Date:</p> <p>December 2018</p>



3. KEY ENGAGEMENT DETAILS & TIMINGS

Review Period Covered	1 July 2017 to 31 December 2017
BDO Engagement Partner	Andrew Hillbeck
Report to be issued to Client Sponsor	Greg Trevaskis








Key Events	Expected Date	Actual Date	Comments on Variations
Fieldwork commencement	12 March 2018	12 March 2018	
Fieldwork completion	23 March 2018	23 March 2018	
Closing meeting	30 March 2018	18 April 2018	
Draft report sent	6 April 2018	26 March 2018	
Management Comments Received	13 April 2018	17 April 2018	
Final report issued	20 April 2018	19 April 2018	

Engagement participants

Name	Title
City of Nedlands	
Vanaja Jayaraman	Manager Financial Services
Purvi Chudasama	Finance Officer (Accounts Payable)
Hassan Shiblee	Acting Coordinator Financial Accounting
Nathan Brewer	Purchasing and Tenders Coordinator
Juli Patel	IT Services Officer
Jonathan Filippone	Systems and Network Administrator
BDO	
Andrew Hillbeck	Partner
Riaan Bronkhorst	Manager

Jessica Chiang	Senior Consultant
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4. RISK RATINGS

LEVEL OF ASSURANCE	DESIGN of internal control framework	
	Findings from review	Design Opinion
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.
Moderate 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.
None 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	No system of internal control.
Risk Significance		
High 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.	
Medium 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.	
Low 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.	



5. 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 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.

6. RESTRICTION OF 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.

The representatives from BDO departed the meeting at 4.39 pm and did not return.

7.3 State Records Commission – Amended Recordkeeping Plan RKP

Owner	City of Nedlands
Director	Lorraine Driscoll – Director Corporate & Strategy
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
Attachments	1. Letter from State Records Commission regarding Amended Recordkeeping Plan RKP 2018005

Moved –Mayor Hipkins

Seconded – Councillor / Mr McManus

Committee Recommendation / Recommendation to Committee

The Audit and Risk Committee notes this report.

CARRIED UNANIMOUS 6/-

Executive Summary

At the Audit and Risk Committee meeting of 22nd February 2018 we advise the Committee of the work we had completed on the City’s Recordkeeping Plan 2018. This report provides an update on the process.

Discussion/Overview

At the end of December 2017, the City submitted its Record Keeping Plan 2018 (*State Records Act 2000*) to the State Records Office for review.

The plan contains, a comprehensive review and documentation of its Information Management system, processes, policies and procedures. It reflects the significant changes and improvements that have taken place during the past few years.

We are pleased to advise that the plan has been approved by the State Records Commission, with the a recognition that the City has made a strong commitment to address the small number of improvements recommended by the Commission.

In accordance with the State Records Act 2000, the plan is to be reviewed within five years of its approval date and is due to be submitted by 23 March 2023.

Key Relevant Previous Council Decisions:

Nil

Consultation

Detailed conversations were held with Professor Joseph at Curtin University and representatives from the State Records Office.

Budget/Financial Implications

Engagement of a records expert at a total cost of \$3784, this was absorbed in the budget allocated to Information Management.



STATE RECORDS COMMISSION

Our Ref: RKP/L/2004/045
Your Ref:
Enquiries: Jessica Morris (08) 9427 3665
jessica.morris@sro.wa.gov.au

City Of Nedlands

11 APR 2018

Received
Records Services

9 April 2018

Mr Greg Trevaskis
Chief Executive Officer
City of Nedlands
PO Box 9
NEDLANDS WA 6909

Dear Greg

Amended Recordkeeping Plan RKP 2018005

At its meeting on 23 March 2018 the State Records Commission APPROVED the amended Recordkeeping Plan (the Plan) for the City of Nedlands (the City).

I acknowledge that the Plan indicates a strong commitment to address certain matters within specific timeframes and advise that the State Records Office (the SRO), in its evaluation, identified further areas to be addressed as outlined in the attachment. I would expect that the next review will reflect progress towards those improvements.

In accordance with section 28 of the *State Records Act 2000*, the Plan for the City is to be reviewed within five years of its approval date. Once completed, a report of the review must be submitted to the State Records Office by **23 March 2023**.

Please contact my officer, Ms Jessica Morris, if you require further assistance or clarification.

Yours sincerely

Cathrin Cassarchis
State Archivist and Executive Director State Records
Att.

Under SRC Standard 2:

- Report on the implementation of requirements outlined as “Partly Meets” and “Does Not Meet” in the Digitization Risk Assessment completed by the City;
- Further development of scanning procedures to ensure they address all requirements of the *General Disposal Authority for Source Records* including:
 - quality control/assurance processes
 - identification of technical specifications
 - management of exceptions
 - physical preparation for scanning
 - scanner test target and calibration procedures;
- Quantity, in linear metres, of State archives held offsite;
- Clarification of whether the hardcopy or the digitized vital records are the official version;
- Confirmation that the City will transfer archives older than 25 years to the SRO; and
- A statement on the evaluation of efficiency and effectiveness of recordkeeping systems within the organization based on implemented performance indicators.

Under SRC Standard 6:

- Evidence that relevant recordkeeping clauses covering the requirements of SRC Standard 6 are included in contracts for outsourced functions.

7.4 Internal Auditor Appointment

Owner	City of Nedlands
Officer	Andrew Melville – Manager Health and Compliance
Director	Lorraine Driscoll – Director Corporate & Strategy
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
Attachments	There were no attachments for this report.

Moved – Councillor Hodsdon
 Seconded – Councillor McManus

Committee Recommendation / Recommendation to Committee

The Audit and Risk Committee notes that the City of Nedlands has appointed Moore Stephens (WA) Pty. Ltd. to undertake the City’s Internal Audit program for a period of 3 years, commencing 1 July 2018.

CARRIED UNANIMOUSLY 6/-

Executive Summary

This report is to advise the Audit and Risk Committee of the Chief Executive Officer’s recent appointment of Moore Stephens (WA) Pty. Ltd to undertake the City’s Internal Audit program for a period of 3 years, commencing 1 July 2018.

Discussion/Overview

Moore Stephens (WA) Pty Ltd have been recently appointed by the Chief Executive Officer to undertake the City of Nedlands’ Internal Audit program for a period of 3 years commencing 1 July 2018.

Moore Stephens (WA) Pty. Ltd. has a 30 year history of providing services to local government in Western Australia. They have completed works of a similar nature previously and their submission provided a good understanding of the methodology required to complete the required works.

This appointment follows the release of a Request for Quote (RFQ 2017/18.14) that was issued by the City, requesting that submissions be made for the supply of internal audit services. The request was emailed to three competent organisations on 2 February 2018 and closed on 2 March 2018 at 5pm.

Moore Stephens (WA) Pty. Ltd. was the sole quoter to make a submission to the City in response to the request.

The submission was assessed by 3 staff at the city in accordance with the qualitative criteria which included:

- Key Personnel, Skills and Experience;
- Organisational Capabilities;
- Performance; and
- Price.

A plan will be developed with advice from the Chief Executive Officer in the coming weeks to determine Audit priorities over the next 3 years.

Key Relevant Previous Council Decisions:

Nil

Consultation

Nil

Budget/Financial Implications

The price quoted was within the City's existing budget parameters and will require ongoing consideration annually in accordance with the annual budget process.

8 Confidential Items

8.1 Relationship with key supplier Civica Pty Limited

Owner	City of Nedlands
CEO	Greg Trevaskis – Chief Executive Officer
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
Attachments	There were no attachments for this report.

Moved – Councillor / Mr Mayor
 Seconded – Councillor / Mr Setchell

Committee Recommendation / Recommendation to the Audit and Risk Committee

Notes this report.

CARRIED UNANIMOUSLY 6/-

9 Date of next meeting

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

Mr R Senathirajah advised that he will be on leave from 12 of June to the end of July.

Declaration of Closure

There being no further business, the Presiding Member declared the meeting closed at 5.01 pm.