



City of Nedlands

# ***Agenda***

## ***Audit and Risk Committee Meeting***

***23 April 2015***

### **ATTENTION**

This Agenda has yet to be dealt with by the Committee.

The Administration Recommendations, shown at the beginning of each item, have yet to be considered by the Committee and are not to be interpreted as being the position of either the Committee or Council.

The Minutes of the meeting held to discuss this Agenda should be read to ascertain the decision of the Committee.

Before acting on any recommendation of the Committee a check must also be made in the Ordinary Council Minutes following the Committee Meeting to ensure that Council did not make a decision at variance to the Committee Recommendation.

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## **City of Nedlands**

**Notice of a meeting of the Audit and Risk Committee to be held in the Council Meeting Room at 71 Stirling Hwy, Nedlands on Thursday 23 April 2015 at 6pm.**

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Dear Committee member

The next meeting of the Audit and Risk Committee will be held on Thursday 23rd April 2015 in the Council Meeting Room at 71 Stirling Highway, Nedlands commencing at 6pm.



Greg Trevaskis  
Chief Executive Officer  
16<sup>th</sup> April 2015

## **Council Committee Agenda**

### **Declaration of Opening**

The Presiding Member will declare the meeting open at 6pm and will draw attention to the disclaimer below.

### **Present and Apologies and Leave Of Absence (Previously Approved)**

**Leave of Absence**                      None.  
**(Previously Approved)**

**Apologies**                      None as at distribution of this agenda.

### **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.

Any plans or documents in agendas and minutes may be subject to copyright. The express permission of the copyright owner must be obtained before copying any copyright material.

**1. Public Question Time**

A member of the public wishing to ask a question should register that interest by notification in writing to the CEO in advance, setting out the text or substance of the question. Questions tabled at the meeting may be unable to be answered due to the requirement for technical research and will therefore be answered direct afterwards.

Questions must relate to a matter contained within the agenda of this meeting.

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

Addresses by members of the public who have completed Public Address Session Forms will be invited to be made at this point.

**3. Disclosures of Financial Interest**

The Presiding Member to remind 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.

A declaration under this section requires that the nature of the interest must be disclosed. Consequently a member who has made a declaration must not preside, participate in, or be present during any discussion or decision making procedure relating to the matter the subject of the declaration.

However, other members may allow participation of the declarant if the member further discloses the extent of the interest. Any such declarant who wishes to participate in the meeting on the matter, shall leave the meeting, after making their declaration and request to participate, while other members consider and decide upon whether the interest is trivial or insignificant or is common to a significant number of electors or ratepayers.

**4. Disclosures of Interests Affecting Impartiality**

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

Councillors and staff are required, in addition to declaring any financial interests to declare any interest that may affect their impartiality in considering a matter. This declaration does not restrict any right to participate in or be present during the decision-making procedure.

The following pro forma declaration is provided to assist in making the disclosure.



“With regard to ..... the matter in item x..... I disclose that I have an association with the applicant (or person seeking a decision). As a consequence, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits and vote accordingly.”

The member or employee is encouraged to disclose the nature of the association.

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

Members who have not read the business papers to make declarations at this point.

**6. Confirmation of Minutes**

**6.1 Audit and Risk Committee Meeting 3 March 2015**

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

**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 CEO REPORT ON INTERNAL CONTROLS – RISK MANAGEMENT**

### **Background**

Regulation 17 of the Local Government (Audit) Regulations 1996 require the Chief Executive Officer (CEO) to review risk management, internal control and legislative compliance and to report the results of that review to the Audit and Risk Committee. Each of these matters is to be reviewed at least once every 2 calendar years.

An extract from the Local Government (Audit) Regulations 1996 is as follows:

17. *CEO to review certain systems and procedures*
  - (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
    - (a) *risk management; and*
    - (b) *internal control; and*
    - (c) *legislative compliance.*
  - (2) *The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*
  - (3)
  - (4) *The CEO is to report to the audit committee the results of that review.*

The attached report covers Risk Management and is presented to the Audit and Risk Committee. The report follows Appendix 3 of the Local Government Operational Guidelines Number 09 which provides CEOs with guidance on issues that should be considered for inclusion in the CEO's Review of Risk Management. For each issue raised in the review, a CEO review/comment is provided.

### **Recommendation to the Audit and Risk Committee**

**The Audit and Risk Committee receives the CEO report on internal controls – Risk Management.**

### **Attachment**

1. CEO report on internal controls – Risk Management



City of Nedlands

nedlands.wa.gov.au

# *CEO Report on Internal Controls – Risk Management*

As at 13 March 2015

## Introduction

The Local Government (Audit) Regulations 1996 were amended in 1996 to require the Chief Executive Officer (CEO) to review risk management, internal control and legislative compliance and to report the results of that review to the Audit and Risk Committee. Each of these matters is to be reviewed at least once every 2 calendar years. Accordingly, the first of these reviews is due by 31 December 2014.

An extract from the Local Government (Audit) Regulations 1996 is as follows:

*17. CEO to review certain systems and procedures*

*(1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*

- (a) risk management; and*
- (b) internal control; and*
- (c) legislative compliance.*

*(2) The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*

*(3) The CEO is to report to the audit committee the results of that review.*

A program for review of internal controls and legislative compliance is incorporated into the Internal Auditors Audit Plan. In addition, the Annual Compliance Return is completed each January and presented to the Audit and Risk Committee. Internal controls are also reviewed annually as part of the interim audit field work by the External Auditors.

This report covers Risk Management.

## Risk Management

Following the amendment to the Local Government (Audit) Regulations 1996, Appendix 3 of the Local Government Operational Guidelines Number 09 was revised in September 2013 to provide CEO's with guidance on issues that should be considered for inclusion in the CEO's Review of Risk Management, Internal Control and Legislative Compliance. The issues that should be considered under risk management are discussed below.

## Risk Management

**Internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:**

- a) Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered;**

CEO Review/comment – In my opinion the City has an effective risk management system and that material operating risks to the local government are appropriately considered.

With the assistance of LGIS, the Executive completed a review of operational risks and revised the Risk Register in October 2014. The register identifies risks and for each risk provides an assessment of the risk and controls in place. Highest risks are assigned the colour Red with a reducing scale to Green. The final risk register is to be presented to the Audit and Risk Committee for consideration in April 2015.

The Executive has a schedule to review the overall register on a monthly basis, with individual risks to be assessed on a rolling basis.

- b) Reviewing whether the local government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;**

CEO Review/comment – In my opinion, the City has a current and effective business continuity plan (including disaster recovery) which is tested from time to time.

The City formally completed its Business Continuity Plan in July 2014 with copies kept at major exits to the Administration Building, in each of the vehicles allocated to the CEO and Directors as well as saved SharePoint and available on the Intranet.

The Business Continuity Plan was tested by the Executive Team and further tests/scenarios are scheduled to be undertaken in 2015 to ensure the BCP is relevant and current.

**c) Assessing the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas;**

- potential non-compliance with legislation, regulations and standards and local government's policies;
- important accounting judgements or estimates that prove to be wrong;
- litigation and claims;
- misconduct, fraud and theft;
- significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government;

CEO Review/comment – In my opinion, the City has adequate internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk in the above areas. The City's risk register covers these areas in some detail.

**d) Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;**

CEO Review/comment – In my opinion, I obtain regular risk reports which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported. A summary of the risk register is presented to the Executive for consideration on a monthly basis.

**e) Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;**

CEO Review/comment – In my opinion there are adequate processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance.

Following the receipt of steep increases in LGIS premiums in 2014 as a result of withdrawal from WALGA membership, the City engaged the services of Willis Australia through a competitive tendering process as insurance brokers for the City. As a result, the City in conjunction with Willis has undertaken a review of the adequacy of insurance cover. The insurance cover is placed with the private sector and as a result no longer has self insurance. Reviews are scheduled to be conducted in conjunction with Willis of OSH and workplace safety processes and practices as well as claims processing generally which will further ensure the adequacy of insurance cover.

**f) Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors;**

CEO Review/comment – I am satisfied with the review of the effectiveness of internal controls conducted internal and external auditors. External auditors review internal controls as part of their interim audit conducted during the financial year and report their findings to management. Actions recommended by the external auditors are noted and when necessary implemented in time to for the completion of the annual financial report.

We also have appointed BDO as internal auditors. The Audit Plan is agreed with the Audit and Risk Committee and covers a broad range of operational areas. Their findings and any action taken on their recommendations are reported to myself and the Audit and Risk Committee.

**g) Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;**

CEO Review/comment – I am satisfied that there are controls in place that identify unusual types of transactions.

Officers have different approval limits subject to the position they hold and these controls are included in the On Line Requisition module of Authority. This means that purchase orders can only be approved by officers within their approved limits.

In addition to system controls, the Council's policy includes the requirements for written quotations in certain circumstances and for more complex transactions there are RFQ and RFT templates used. For all RFTs, a report to Council is required. The On Line Requisition module captures all quotations received.

Finally, all invoices are duly authorised by an officer with the necessary approval limits. All payments are entered by an officer in Finance and independently approved by 2 senior officers, ie the Manager Finance and the Director Corporate and Strategy.

**h) Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;**

CEO Review/comment – I am satisfied with the Council's policy in terms of probity and transparency.

- i) Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment;**

CEO Review/comment – I am satisfied with the current meetings between key management and our internal and external auditors.

BDO, the City's internal audit firm have an Audit Plan that is endorsed by the Audit and Risk Committee. All audit assignments are scoped in the first instance with key staff subject to that audit area identified. Meetings with key staff are arranged and a draft audit report including their findings and recommendations is prepared. Internal Audit then meet with senior management to discuss and clarify their findings before the report is finalised. The final report is then presented to the Audit and Risk Committee.

With regards to external audit, there are several meetings with key management during the course of their work. Firstly is an interim audit where internal controls and other audit field work is undertaken in preparation for the annual audit. A letter summarising their findings is presented to senior management and action on any recommendations is undertaken.

At the completion of the final audit, a meeting with the Audit and Risk Committee is scheduled so that their findings and opinion can be presented to the Committee for consideration. Once the final audited statements are accepted by the Audit and Risk Committee, the auditors complete and issue their Audit opinion.

In recent years, the external auditors have also been consulted in the preparation of assets revaluations under Fair Value.

- j) Ascertaining whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.**

CEO Review/comment – I am satisfied that there is an appropriate level of awareness to identify, analyse and treat fraud and misconduct risk. The internal controls and separation of duties throughout key areas of the organisation are regularly tested and reviewed. Staff receive a thorough induction which includes fraud and misconduct. Staff are reminded of their responsibilities and obligations through staff meetings, the intranet.



## **7.2 RISK REGISTER**

### **Background**

The City of Nedlands' risk management framework is accordance with the ISO 31000 Risk Management Principles and Guidelines standard.

A Risk Profile, which is the strategic risk register for the City, has been created with the assistance of LGIS. The Risk Profile is comprises of a table showing the various measures of risk and overall risk matrix then a dashboard summary of each of the 24 risk areas identified in the Risk Profile.

The Risk Profile is a working document and each risk area is reviewed by the Executive on a rolling basis annually.

The Risk Profile is presented to the Audit and Risk Committee.

### **Recommendation to the Audit and Risk Committee**

**The Audit and Risk Committee receives the Risk Profile CEO report on internal controls – Risk Management.**

### **Attachment**

1. Risk Profile – Strategic Risk Register



City of Nedlands

nedlands.wa.gov.au

# ***Risk Profile***

## ***Strategic Risk Register***

As at 14 April 2015

# City of Nedlands Risk Report - March 2015

## Executive Summary

## Recommendations

Asset Sustainability Practices		Risk	Control
		Moderate	Adequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
Address building maintenance program	Jun-15	Mark Goodlet	

Providing Advice / Information		Risk	Control
		High	Adequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
Review induction program	Jun-15	S. Mettam	

Community Expectations		Risk	Control
		Moderate	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
Investigate CRM	Jun-15	Michael Cole	

Engagement with Community, Stakeholders & Elected Members		Risk	Control
		Moderate	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
Review customer service charter to include information about community engagement	Jun-15	Brid	

Errors, Omissions & Delays		Risk	Control
		Moderate	Inadequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
Reviewing procedures for Administration Officers	Jun-15	Andrew Melville	
Develop corporate training calendar	Jun-15	Shelley Mettam	
HR to collate training feedback from Performance Reviews for training needs analysis	Dec-15	Shelley Mettam	

Facilities, Venues and Events Management		Risk	Control
		Moderate	Adequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
Implement building assessment condition report	Jul-15	M Goodlet	
Implement recommendations from Core report	Jul-15	M Goodlet	
Complete review of Booking System	Jul-15	M Cole	

Misconduct		Risk	Control
		Low	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
No current actions required			

People Management / Employment Practices		Risk	Control
		Moderate	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
Review culture and values	Jun-15	S. Mettam	
Review performance review form	Jun-15	S. Mettam	
Collate performance review data for planning training, upskilling	Jun-15	S. Mettam	
Review reference check form	Jun-15	S. Mettam	

Project / Change Management		Risk	Control
		High	Adequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
Project management framework	Jun-15	M Goodlet & M Cole	
PID/Project Plan review & awareness	Jun-15	P Huigens	

Stock Management		Risk	Control
		Low	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
No current actions required			

Supplier / Contract Management		Risk	Control
		High	Inadequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
Project management framework development		M Goodlet & M Cole	
Standardised project management documentation templates (based on TAS model?)	Jun-15	Executive	
Standardised procurement management documentation templates	Dec-15	M Goodlet	

Corporate Business Plan		Risk	Control
		Moderate	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
Review of SCP/CBP/Long Term Financial Plan	End 2015	M Cole	

Damage to Physical Assets		Risk	Control
		Moderate	Adequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
Implement OSH management system	Dec-15	Oshley	

Business Disruption		Risk	Control
		Low	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
Follow-up BCP exercise	Mar-15	Mike Fletcher	

Inadequate Data / Document Management Processes		Risk	Control
		Low	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
Create records and information management policies and procedures (Record Keeping Plan)	Feb-16	Records Coordinator	

Inadequate Environmental Management		Risk	Control
		Low	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
No outstanding actions			

External Theft & Fraud		Risk	Control
		Moderate	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
Finalise asset register	Jun-15	Steve Crossman	
CCTV at Tresillian	End 2014		

I.T. and Communications Systems and Infrastructure		Risk	Control
		Moderate	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
Review ICT Disaster Recovery Plan	Dec-14	Mike Fletcher	

Organisation and Community Emergency Management		Risk	Control
		Moderate	Inadequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
No outstanding actions			

Procurement, Disposal or Tender Practices		Risk	Control
		Moderate	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
No outstanding actions			

Safety and Security Practices		Risk	Control
		Moderate	Inadequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
OSH management system implementation	Apr-15	S Mettam	
Action issues identified in OSH inspections	Apr-15	S Mettam	

Statutory, Regulatory and Compliance Requirements		Risk	Control
		Low	Effective
Current Issues / Actions / Treatments	Due Date	Responsibility	
No outstanding actions			

Financial, Accounting and Business Acumen		Risk	Control
		Moderate	Adequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
No outstanding actions			

Political		Risk	Control
		Moderate	Adequate
Current Issues / Actions / Treatments	Due Date	Responsibility	
No outstanding actions			



## Damage to Physical Assets

Nov-14

### This Risk Theme is defined as:

Damage to buildings, property, plant & equipment (all assets) that does not result in a disruption to business objectives (refer Business Disruption). This could be a result of a natural disaster or other events, or an act carried out by an external party (inc. graffiti and / or vandalism).

### Potential causes include:

- Cyclone, Storms, Fire, Earthquake
- Graffiti
- Vandalism
- Inappropriate Use

Controls	Type	Date	City Rating
CCTV at Depot/Tresillian	Detective/Recovery	Sep-14	Adequate
After Hours answering service	Recovery	Sep-14	Effective
After Hours response	Recovery	Sep-14	Adequate
Emergency Response Plan	Recovery	Sep-14	Effective
Insurance	Recovery	Sep-14	Effective
Design	Preventative	Sep-14	Effective
Graffiti removal contractor	Recovery	Sep-14	Effective
In-house personnel and equipment	Recovery	Sep-14	Effective
Training	Preventative		Adequate
Regular maintenance and inspections/audits	Detective		Adequate
Community ownership/engagement	Preventative		Adequate
Team briefing meetings	Preventative		Effective
Protocols & procedures	Preventative		Adequate
Inductions	Preventative		Inadequate
People management	Preventative		Effective

Overall Control Ratings: Adequate

Consequence Category	Risk Ratings	City Rating
Interruption to service provision	Consequence:	Minor
	Likelihood:	Possible
Overall Risk Ratings:		Moderate

Indicators	Tolerance	Date	Overall City Result
Number of incidents reported	1		
Number of insurance claims	1		

### Comments

As rated by Workshop Attendees - Inductions are required to be equipment-specific rather than job-specific. When a staff member is asked to do a job outside of their usual job, they are not always trained/inducted for that once-off event.

### Current Issues / Actions / Treatments

Implement OSH management system

### Due Date

Dec-15

### Responsibility

Oshley

### Incident Management Tracking

### Related Incident Details

None

### Date

### Impact

# Business Disruption

Sep-14

## This Risk Theme is defined as:

A local physical event causing the inability to continue business activities and provide services to the community. This may or may not result in Business Continuity Plans being invoked. This does not include disruptions due to:

- IT Systems or infrastructure related failures should be captured under "Failure of IT Systems and Infrastructure".
- Contractor / Supplier issues should be captured under "Inadequate Supplier / Contract Management".
- People issues should be captured under "Inappropriate People Management".

## Potential causes include:

- Cyclone, Storm, Fire, Earthquake
- Terrorism / Sabotage / Criminal Behaviour
- Epidemic / Pandemic
- Extended power outage
- Economic Factors
- Loss of Key Staff

Controls	Type	Date	City Rating
<i>Business Continuity Framework (Policy &amp; Procedures)</i>	<i>Preventative</i>	<i>Sep-14</i>	<i>Effective</i>
<i>Business Continuity Plans</i>	<i>Recovery</i>	<i>Sep-14</i>	<i>Adequate</i>
<i>BCP Exercises</i>	<i>Detective</i>	<i>Sep-14</i>	<i>Effective</i>

Overall Control Ratings: *Effective*

Consequence Category	Risk Ratings	City Rating
<i>Service Interruption</i>	<i>Consequence:</i>	<i>Major</i>
	<i>Likelihood:</i>	<i>Rare</i>

Overall Risk Ratings: *Low*

Indicators	Tolerance	Date	Overall City Result
<i>Resignations/terminations of EMT members</i>	<i>2 p/annuam</i>	<i>Nov-14</i>	<i>Nil</i>
<i>Frequency of natural disasters</i>	<i>zero</i>	<i>Nov-14</i>	<i>Nil</i>
<i>Extended power outage</i>	<i>2 days</i>	<i>Nov-14</i>	<i>Nil</i>

## Comments

*As rated by Workshop Attendees -*

Current Issues / Actions / Treatments	Due Date	Responsibility
<i>Follow-up BCP exercise</i>	<i>Mar-15</i>	<i>Mike Fletcher</i>

Incident Management Tracking		
Related Incident Details	Date	Impact
<i>None</i>		



# Inadequate Data / Document Management Processes

Nov-14

## This Risk Theme is defined as:

Failure to adequately capture, store, archive, retrieve, provision and / or disposal of documentation. This includes:

- Contact lists.
- Procedural documents.
- 'Application' proposals/documents.
- Contracts.
- Forms, requests or other documents.

## Potential causes include:

- Spreadsheet/Database/Document corruption or loss
- Inadequate access and / or security levels
- Inadequate Storage facilities (including climate control)
- High Staff turnover
- Outdated record keeping practices / incompatible systems
- Lack of system/application knowledge
- High workloads and time pressures
- Incomplete authorisation trails

Key Controls	Type	Date	City Rating
Policy & Procedural Review Process	Detective	Nov-14	Adequate
Daily back-up	Recovery	Nov-14	Effective
Sharepoint	Preventative	Nov-14	Effective
TRIM	Preventative	Nov-14	Adequate
Offsite storage facility	Recovery	Nov-14	Effective
Cloud	Recovery	Nov-14	Effective
Strongroom	Preventative	Nov-14	Adequate

Overall Control Ratings: Effective

Consequence Category	Risk Ratings	City Rating
Service Interruption/Regulatory Compliance	Consequence: Minor	Minor
	Likelihood: Unlikely	Unlikely

Overall Risk Ratings: Low

Key Indicators	Tolerance	Date	Overall City Result
% Documents not stored electronically or archived off-site			
# out of date Council policies	2	Oct-14	4
# out of date Administration protocols	2	Oct-14	4
# out of date Procedures	2	Oct-14	9

## Comments

As rated by Workshop Attendees -

Current Issues / Actions / Treatments	Due Date	Responsibility
Create records and information management policies and procedures (Record Keeping Plan)	Feb-16	Records Coordinator

## Incident Management Tracking

Related Incident Details	Date	Impact
None		

# Inadequate Environmental Management

Nov-14

## This Risk Theme is defined as:

Inadequate prevention, identification, enforcement and management of environmental issues. The scope includes;

- Contaminated sites. / Coastal issues
- Waste facilities (landfill / transfer stations) / Groundwater
- Weed control. / Water Quality
- Illegal dumping.
- Illegal clearing / land use.
- Environmental protection
- Waste disposal laws
- Energy consumption
- Popular attitude towards the environment

## Potential causes include:

- Inadequate management of landfill monitoring program
- lack of understanding / knowledge
- Inadequate local laws / planning schemes
- Inadequate reporting / oversight frameworks
- Community apathy.
- Lack of compliance

Controls	Type	Date	City Rating
Landfill Waste Monitoring Plan	Detective	Sep-14	Effective
Natural Area Management Plans	Preventative	Sep-14	Effective
Support Environmental Groups	Preventative / Detective	Sep-14	Adequate
Controlling land use through the Local Planning Scheme	Preventative	Sep-14	Adequate
Strategic Land Use planning investigations and feasibility studies	Detective	Sep-14	Adequate
Applying statutory planning processes and framework	Preventative	Sep-14	Effective
Frequent reviews of Sustainable Environment functions	Detective	Sep-14	Effective
Conducting environmental health inspections	Detective	Sep-14	Effective
Encourage recycling efforts	Preventative	Sep-14	Adequate
Enforcing existing heritage provisions in planning scheme	Preventative	Sep-14	Adequate
Restoring of coastal and estuarine areas	Preventative	Sep-14	Effective
Revegetating remnant bushland areas	Preventative	Sep-14	Effective
Tender and contract documents	Preventative	Nov-14	Effective
Administration protocols/procedures	Preventative	Nov-14	Effective
Training	Preventative	Nov-14	Effective
Accreditation requirement for contractors	Preventative	Nov-14	Effective
Monitoring (eg. Groundwater testing)	Detective	Nov-14	Effective
Local Laws	Preventative	Nov-14	Effective
Friends Groups	Preventative	Nov-14	Effective

## Overall Control Ratings:

Effective

Consequence Category	Risk Ratings	City Rating
Environmental	Consequence:	Moderate
	Likelihood:	Rare
Overall Risk Ratings:		Low

Indicators	Tolerance	Date	Overall City Result
Number of Health risk assessments / inspections completed	100%		
Environmental sampling undertaken in accordance with legislation	100%		

## Comments

As rated by Workshop Attendees

Current Issues / Actions / Treatments	Due Date	Responsibility
No outstanding actions		

## Incident Management Tracking

Related Incident Details	Date	Impact



## External Theft & Fraud

Sep-14

### This Risk Theme is defined as:

Loss of funds, assets, data or unauthorised access, (whether attempts or successful) by external parties, through any means (including electronic), for the purposes of;

- Fraud – benefit or gain by deceit
- Malicious Damage – hacking, deleting, breaking or reducing the integrity or performance of systems
- Theft – stealing of data, assets or information (no deceit)

### Potential causes include:

- Inadequate security of equipment / supplies / cash
- Robbery
- Scam Invoices
- Inadequate provision for patrons belongings
- Lack of Supervision

Controls	Type	Date	City Rating
Security Access controls at all buildings (eg. Admin / Depot)	Preventative	Sep-14	Effective
Security access for all buildings	Preventative	Sep-14	Effective
Security Monitoring controls	Detective	Sep-14	Adequate
IT Firewall Systems	Preventative	Sep-14	Effective
Photographic record of major assets	Recovery	Sep-14	Adequate
Asset register	Recovery	Sep-14	Adequate
Annual stocktake	Detective	Sep-14	Effective
Internal audit	Detective	Sep-14	Effective

**Overall Control Ratings:** Effective

Consequence Category	Risk Ratings	City Rating
Financial/Property	Consequence:	Moderate
	Likelihood:	Possible

**Overall Risk Ratings:** Moderate

Indicators	Tolerance	Date	Overall City Result
Number of incidents	1		

### Comments

As rated by Workshop Attendees -

Current Issues / Actions / Treatments	Due Date	Responsibility
Finalise asset register	Jun-15	Steve Crossman
CCTV at Tresillian	End 2014	

### Incident Management Tracking

Related Incident Details	Date	Impact
None		



## Failure of IT &/or Communications Systems and Infrastructure

Nov-14

### This Risk Theme is defined as:

Instability, degradation of performance, or other failure of IT Systems, Infrastructure, Communication or Utility causing the inability to continue business activities and provide services to the community. This may or may not result in IT Disaster Recovery Plans being invoked. Examples include failures or disruptions caused by:

- Hardware &/or Software
- IT Network
- Failures of IT Vendors

This also includes where poor governance results in the breakdown of IT maintenance such as;

- Configuration management
- Performance Monitoring
- IT Incident, Problem Management & Disaster Recovery Processes

This **does not** include new system implementations - refer "Inadequate Project / Change Management".

### Potential causes include:

- Weather impacts
- Power outage at service provider
- Out dated / inefficient hardware
- Incompatibility between operating system and Microsoft
- Power failure on site
- Infrastructure breakdown such as landlines, radio communications.
- Lack of training
- Software vulnerability (e.g. MS Access)

Controls	Type	Date	City Rating
Data Back up Systems	Recovery	Nov-14	Effective
Performance Monitoring	Detective	Nov-14	Effective
Vendor Support (IT Vision)	Recovery	Nov-14	Adequate
PABX System (Commander)	Detective	Nov-14	Effective
UPS	Recovery	Nov-14	Effective
Maintenance and replacement program	Preventative	Nov-14	Effective
Cloud solution for IT and communications systems	Preventative	Nov-14	Effective
DR Site	Recovery	Nov-14	Adequate

### Overall Control Ratings:

Effective

Consequence Category	Risk Ratings	City Rating
Service Interruption	Consequence: Major	Major
	Likelihood: Unlikely	Unlikely
	Overall Risk Ratings: Moderate	Moderate

Indicators	Tolerance	Date	Overall City Result
System downtime			
Availability of network infrastructure during business hours	100%		
Average outstanding Help Desk support requests	10		
<b>Comments</b> As rated by Workshop Attendees -			

Current Issues / Actions / Treatments	Due Date	Responsibility
Review ICT Disaster Recovery Plan	Dec-14	Mike Fletcher

### Incident Management Tracking

Related Incident Details	Date	Impact
None		

# Inadequate Organisation and Community Emergency Management

Sep-14

## This Risk Theme is defined as;

Failure to adequately conduct Prevention, Preparation, Response and Recovery (PPRR) in the organisation structure and community elements, inclusive of the management of all emergencies. This includes;

- Lack of (or inadequate) emergency response plans.
- Lack of training to specific individuals or availability of appropriate emergency response.
- Failure in command and control functions as a result of incorrect initial assessment or untimely awareness of incident.
- Inadequacies in environmental awareness and monitoring of fuel loads, curing rates etc

(References: AS 3745; AS 1851; AIIMS 4 Management Principles)

## Potential causes include;

- Inadequate Communication
- Unplanned human behavioural response
- Inadequate internal emergency management structure
- Inadequate Bushfire Management Plans
- Isolation in workplace
- Lack of Community Participation
- Lack of relevant skill and knowledge

Controls	Type	Date	City Rating
Established and Trained Emergency Planning Committee	Preventative	Sep-14	Effective
Organisation Emergency Evacuation Management Plan	Preventative	Sep-14	Adequate
Established and Trained ECO (Fire Wardens / First Aiders)	Preventative	Sep-14	Adequate
Functional LEMC	Preventative	Sep-14	Effective
Current LEMA & Recovery Plan	Preventative	Sep-14	Adequate
LEM exercises	Detective	Sep-14	Inadequate
Current Bushfire Risk Management Plan	Preventative	Sep-14	Adequate
Risk register (fuel loads)	Preventative	Sep-14	Adequate

Overall Control Ratings: Inadequate

Consequence Category	Risk Ratings	City Rating
Health / Property	Consequence:	Major
	Likelihood:	Unlikely

Overall Risk Ratings: Moderate

Indicators	Tolerance	Date	Overall City Result
Missed LEMC Meetings	1		
Exercises Recorded	1		
Plans out of date by more than 12 months	1		
Number of internal evacuation exercises	1	2013/2014	on target

## Comments

As rated by Workshop Attendees -

Current Issues / Actions / Treatments	Due Date	Responsibility
No outstanding actions		

Incident Management Tracking		
Related Incident Details	Date	Impact
None		



# Inadequate Procurement, Disposal or Tender Practices.

Nov-15

## This Risk Theme is defined as:

Failures in the procurement, acquisition, acceptance or disposal process for assets as governed by the Local Government Act. This risk theme also relates to and includes;

- Lack of formalised process to identify specific requirements prior to procurement.
- Acceptance of assets without reference to a formalised process to ensure correct receipt and / or notification of receipt (transfer of ownership).
- Disposing of plant and equipment (either through sale or decommissioning) that did not meet expectations from either a time or financial perspective.
- Failures in the Tender process from RTF preparation, advertising, due diligence and awarding.

## Potential causes include:

- Fluctuating local market
- Fraud
- Lack of procedural process / short cutting
- Upselling issues
- Biased view of requirement / specifications
- Lack of liaison with operators

Controls	Type	Date	City Rating
Policy & Procedures	Preventative	Nov-15	Effective
Delegation Register	Preventative	Nov-15	Effective
Purchase Order Review Process	Detective	Nov-15	Effective
Internal audit	Detective	Nov-15	Effective
Declarations of interest	Preventative	Nov-15	Adequate
Management oversight	Preventative	Nov-15	Effective
Asset disposal register	Preventative	Nov-15	Adequate
Authority approval hierarchy	Preventative	Nov-15	Effective
Asset finda	Preventative	Nov-15	Effective

Overall Control Ratings: Effective

Consequence Category	Risk Ratings	City Rating
Financial/Regulatory/Reputation	Consequence:	Moderate
	Likelihood:	Unlikely
Overall Risk Ratings:		Moderate

Indicators	Tolerance	Date	Overall City Result
Audits completed as per schedule			
Delegations reviewed annually			
Purchase orders issued for all procurement			
Annual stock take of plant and equipment			

## Comments

As rated by Workshop Attendees -

Current Issues / Actions / Treatments	Due Date	Responsibility
No outstanding actions		

## Incident Management Tracking

Related Incident Details	Date	Impact
None		

## Inadequate safety and security practices

Nov-14

### This Risk Theme is defined as:

Non-compliance with the Occupation Safety & Health Act, associated regulations and standards. It is also the inability to ensure the physical security requirements of staff, contractors and visitors. Other considerations are:

- Inadequate Policy, Frameworks, Systems and Structure to prevent the injury of visitors, staff, contractors and/or tenants.
- Inadequate Organisational Emergency Management requirements (evacuation diagrams, drills, wardens etc).
- Inadequate security protection measures in place for buildings, depots and other places of work (vehicle, community etc).
- Public Liability Claims, due to negligence or personal injury.
- Employee Liability Claims due to negligence or personal injury.
- Inadequate or unsafe modifications to plant & equipment

### Potential causes include:

- Lack of appropriate PPE / Equipment
- Inadequate first aid supplies or trained staff
- Disposing of hazardous Waste
- Inadequate security arrangements
- Inadequate signage, barriers or other exclusion techniques
- Storage and use of Dangerous Goods
- Ineffective / inadequate testing, sampling (similar) health based req'
- Lack of mandate and commitment from Senior Management

Controls	Type	Date	City Rating
Workplace Inspections	Preventative	Nov-14	Inadequate
Staff Individual Training Plans	Preventative	Nov-14	Adequate
Hazard Register	Detective	Nov-14	Adequate
OSH Management Framework	Preventative	Nov-14	Effective
Contractor / Site Inductions	Preventative	Nov-14	Inadequate
Staff Inductions	Preventative	Nov-14	Inadequate
Ensuring buildings meet City and State mandated standards particularly where public safety is concerned	Preventative	Nov-14	Adequate
CCTV at selected sites	Preventative	Nov-14	Adequate
Code of Conduct	Preventative	Nov-14	Adequate
Fitness for work protocol	Preventative	Nov-14	Adequate
JSEA's	Preventative	Nov-14	Adequate
OSHLEY	Preventative	Nov-14	Adequate
Provision of PPE/Equipment	Preventative	Nov-14	Effective
Security systems/building access	Preventative	Nov-14	Adequate
Buddy system (Parks department)	Preventative	Nov-14	Adequate

Overall Control Ratings: Inadequate

Consequence Category	Risk Ratings	City Rating
Health	Consequence:	Moderate
	Likelihood:	Possible
Overall Risk Ratings:		Moderate

Indicators	Tolerance	Date	Overall City Result
4801 Audit Results			
LTI's			
Near misses and feedback at toolbox and staff meetings	1		
Workers Compensation Claims			
<b>Comments</b> As rated by Workshop Attendees -			

Current Issues / Actions / Treatments	Due Date	Responsibility
OSH management system implementation	Apr-15	S Mettam
Action issues identified in OSH inspections	Apr-15	S Mettam

Incident Management Tracking		
Related Incident Details	Date	Impact
None		



## Failure to fulfil statutory, regulatory or compliance requirements

Nov-14

### This Risk Theme is defined as:

Failure to correctly identify, interpret, assess, respond and communicate laws and regulations as a result of an inadequate compliance framework. This could result in fines, penalties, litigation or increase scrutiny from regulators or agencies. This includes, new or proposed regulatory and legislative changes, in addition to the failure to maintain updated legal documentation (internal & public domain) to reflect changes.

This does not include;

- Issues in relation to OH&S – refer "Inadequate employee and visitor safety and security"
- Procurement, disposal or tender process failures – refer "Inadequate Procurement, Disposal or Tender Practices"
- HR based legislation – refer "ineffective People Management"

### Potential causes include:

- Lack of training, awareness and knowledge
- Staff Turnover
- Inadequate record keeping
- Ineffective processes
- Lack of Legal Expertise
- Councillor Turnover
- Misunderstanding of delegations
- Ineffective monitoring of changes to legislation

Key Controls	Type	Date	City Rating
<i>Compliance Return (DLG)</i>	<i>Detective</i>	<i>Nov-14</i>	<i>Effective</i>
<i>Financial Interest Return</i>	<i>Recovery</i>	<i>Nov-14</i>	<i>Effective</i>
<i>External Auditor Reviews (Compliance)</i>	<i>Detective</i>	<i>Nov-14</i>	<i>Effective</i>
<i>Subscriptions /memberships/networking</i>	<i>Preventative</i>	<i>Nov-14</i>	<i>Effective</i>
<i>Induction Process - Councillors</i>	<i>Preventative</i>	<i>Nov-14</i>	<i>Adequate</i>
<i>Induction Process - Staff</i>	<i>Preventative</i>	<i>Nov-14</i>	<i>Effective</i>
<i>Management oversight</i>	<i>Preventative</i>	<i>Nov-14</i>	<i>Effective</i>
<i>External consultants eg. Lawyers</i>	<i>Preventative</i>	<i>Nov-14</i>	<i>Effective</i>
<i>Internal Audit reviews</i>	<i>Detective</i>	<i>Nov-14</i>	<i>Adequate</i>
<i>Procedures</i>	<i>Preventative</i>	<i>Nov-14</i>	<i>Adequate</i>
<i>Checklists</i>	<i>Preventative</i>	<i>Nov-14</i>	<i>Adequate</i>
<i>Training</i>	<i>Preventative</i>	<i>Nov-14</i>	<i>Effective</i>

**Overall Control Ratings:** *Effective*

Consequence Category	Risk Ratings	City Rating
	<b>Consequence:</b>	<i>Minor</i>
	<b>Likelihood:</b>	<i>Unlikely</i>

**Overall Risk Ratings:** *Low*

Key Indicators	Tolerance	Date	Overall City Result
<i>Fines or penalties</i>	<i>1</i>		
<i>Audit notifications</i>	<i>1</i>		
<i>3rd party Investigations</i>	<i>1</i>		
<i>% of FOI's actioned within timeframes</i>	<i>90%</i>	<i>Sept 14 - Aug 15</i>	<i>90%</i>
<i>Negative response in Compliance Return</i>	<i>1</i>	<i>Mar-14</i>	<i>0</i>
<i>Letter from the Department of Local Government notifying of a breach</i>	<i>1</i>	<i>Sep-14</i>	<i>0</i>
<i>Refunding of fees (building)</i>	<i>1</i>		

### Comments

LGIS are developing a Standardised Compliance Framework for Local Governments. Once completed, this will be reviewed and implemented where applicable to provide an overview of control effectiveness in this area.

Current Issues / Actions / Treatments	Due Date	Responsibility
<i>No outstanding actions</i>		

### Incident Management Tracking

Related Incident Details	Date	Impact
<i>Annual Financial Interest return deadline missed</i>	<i>2014</i>	<i>Letters from DLG</i>

## Inadequate Financial, Accounting or Business Practices

Sep-14

### This Risk Theme is defined as:

Inadequate identification or quantification of financial exposure or risk associated with decisions to invest in land transactions, financial derivatives or investments or poor long term forecasting or assumptions. This includes:

- Increased capital costs above assumption
- Employee cost rises above assumption
- Revenue shortfall arising from factors such as external grants/funding, fees and charges, rates, and cost shifting from State and/or Federal Government to Local Government

### Potential causes include:

Poor credit management (short or long term borrowing restricting capacity or flexibility)

Ineffective Business Planning (poor scope / competition analysis)

Ineffective market analysis (over or under estimating)

Ineffective financial modelling, forecasting and projection techniques or processes

Lack of skilled and trained staff

Controls	Type	Date	City Rating
LTFP	Preventative	Sep-14	Adequate
Budget process	Preventative	Sep-14	Effective
Capacity Building	Preventative	Sep-14	Adequate
Rigour of project management	Preventative	Sep-14	Adequate
Workforce Plan (WFP)	Preventative	Sep-14	Adequate
Operational reviews	detective	Sep-14	Effective
budget reviews	detective	Sep-14	Effective
financial audit (internal and external)	detective	Sep-14	Effective
Audit and risk committee	monitor	Sep-14	Adequate

Overall Control Ratings:

Adequate

Consequence Category	Risk Ratings	City Rating
Financial	Consequence:	Major
	Likelihood:	Unlikely
	Overall Risk Ratings:	Moderate

Indicators	Tolerance	Date	Overall City Result
<b>Operating Surplus Ratio</b> The extent to which revenues raised cover operational expense only or are available for capital funding purposes.	Between 0% and 15%	2013/2014	-0.87%
<b>Current Ratio</b> The liquidity position of a local government that has arisen from the past years transactions.	≥1	2013/14	0.92
<b>Rates Coverage Ratio</b> Indicator of a local government's ability to cover its costs through its own tax revenue efforts. Total rates revenue/Total expenses	≥40%	2013/14	67.80%
<b>Debt Service Cover Ratio</b> The ratio of cash available for debt servicing to interest, principal and lease payments.	>2	2013/14	3
Unqualified audit report	1	Nov-14	1
Completion of internal audit program	95%	Nov-14	100%
<b>Comments</b> As rated by Workshop Attendees -			

Current Issues / Actions / Treatments	Due Date	Responsibility
No outstanding actions		

Incident Management Tracking		
Related Incident Details	Date	Impact
None		



# Inability to meet Corporate Business Plan objectives

Sep-14

<b>Streetscape</b> no. of trees in streetscapes and parks	21,600			A1.6
<b>Underground Power</b> No. of lots with underground power	4,382			A1.11
<b>Roads:</b> Road pavement % of road pavement in a 'satisfactory' condition	70%			A2.1
Drainage % of drainage in a 'satisfactory' condition	TBD / New			A2.2
<b>Footpaths and Cycleways</b> % of footpaths in a 'satisfactory' condition	New			A2.3
km of dedicated cycle-ways (CoN and Main Roads)	New			A2.3
<b>Transport Planning and Management</b> <b>Parking</b> % of respondents satisfied with the performance of the City of Nedlands in the area of control of parking	60%			A2.4
<b>Support to Community Groups and Organisations</b> (includes Built Facilities) <b>Major projects</b> no. of major projects completed on time and within budget	1			A3.1
<b>Sport and Physical Recreation</b> Sports club satisfaction level	75%			A3.2
<b>Advocacy</b> Effectiveness of advocacy on key issues of community interest	New New			A4.5
<b>Regional Co-operation and Collaboration</b> Effectiveness of WESROC programs/ projects supported by the CoN	New			A4.6
Effectiveness of programs/ projects undertaken in partnership with neighbouring local governments	New			A4.6

## Comments

As rated by Workshop Attendees -

Current Issues / Actions / Treatments	Due Date	Responsibility
Review of SCP/CBP/Long Term Financial Plan	End 2015	M Cole

### **7.3 INTERIM AUDIT – FRAUD AND ERROR ASSESSMENT**

#### **Background**

The Australian Auditing Standards require our Auditors Macri Partners to consider the risk that fraud could occur within the Council. In preparing to perform their Interim Audit risk assessment of the City of Nedlands in relation to the audit for the year ending 30 June 2015, Macri Partners have requested answers to the following questions:

1. Do you believe the policies and procedures in place within the Council are adequate to minimise the risk of fraud to an appropriately low level? Please provide an explanation for the reasons for your answer.
2. Have you, during the past year, become aware of or suspected fraud within the Council? If yes, please provide details.
3. Are you aware of any instances where policies and procedures have not been adhered to which could have resulted in a fraud occurring? If yes, please provide details.
4. Has the Council's management communicated to you its processes for identifying/responding to risks of fraud?

A draft response has been prepared for the Committee's consideration. The matter of Fraud Risk is addressed in the CEO report on internal controls – Risk Management.

#### **Recommendation to the Audit and Risk Committee**

##### **The Audit and Risk Committee:**

1. **Endorses the responses to the Fraud and Error Assessment; and**
2. **Authorises the Presiding Member to sign the assessment.**

#### **Attachment**

1. Interim Audit – Draft Fraud and Error Assessment



# Fraud and Error Assessment – Audit Committee

## CITY OF NEDLANDS

FOR THE YEAR ENDING 30 JUNE 2015

The Australian Auditing Standards require us to consider the risk that fraud could occur within the Council. We are preparing to perform our Interim Audit risk assessment of your Council in relation to the audit for the year ending 30 June 2015. We would appreciate if you could briefly answer the following questions in the spaces provided, and return this signed letter.

1. Do you believe the policies and procedures in place within the Council are adequate to minimise the risk of fraud to an appropriately low level? Please provide an explanation for the reasons for your answer.

Yes. The Committee accepts that there is an appropriate level of awareness to identify, analyse and treat fraud and misconduct risk. The internal controls and separation of duties throughout key areas of the organisation are regularly tested and reviewed. Staff receive a thorough induction which includes fraud and misconduct. Staff are reminded of their responsibilities and obligations through staff meetings, the intranet.

2. Have you, during the past year, become aware of or suspected fraud within the Council? If yes, please provide details.

No.

3. Are you aware of any instances where policies and procedures have not been adhered to which could have resulted in a fraud occurring? If yes, please provide details.

No.

4. Has the Council's management communicated to you its processes for identifying/responding to risks of fraud?

Yes.

**Signature:**

---

**Name:**

---

**Position:**

---

**Date:**

---

**Examples of Circumstances that Indicate the Possibility of Fraud**

The following are examples of circumstances that may indicate the possibility that the financial report may contain a material misstatement resulting from fraud.

Discrepancies in the accounting records, including:

- Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.
- Unsupported or unauthorised balances or transactions.
- Last-minute adjustments that significantly affect financial results.
- Evidence of employees' access to systems and records inconsistent with that necessary to perform their authorised duties.
- Tips or complaints to the auditor about alleged fraud.

Conflicting or missing evidence, including:

- Missing documents.
- Documents that appear to have been altered.
- Unavailability of other than photocopied or electronically transmitted documents when documents in original form are expected to exist.
- Significant unexplained items on reconciliations.
- Unusual balance sheet changes, or changes in trends or important financial statement ratios or relationships – for example receivables growing faster than revenues.
- Inconsistent, vague, or implausible responses from management or employees arising from enquiries or analytical procedures.
- Unusual discrepancies between the entity's records and confirmation replies.
- Large numbers of credit entries and other adjustments made to accounts receivable records.
- Unexplained or inadequately explained differences between the accounts receivable sub-ledger and the control account, or between the customer statements and the accounts receivable sub-ledger.
- Missing or non-existent cancelled cheques in circumstances where cancelled cheques are ordinarily returned to the entity with the bank statement.
- Missing inventory or physical assets of significant magnitude.
- Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies.
- Fewer responses to confirmations than anticipated or a greater number of responses than anticipated.
- Inability to produce evidence of key systems development and program change testing and implementation activities for current-year system changes and deployments.

Problematic or unusual relationships between the auditor and management, including:

- Denial of access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence might be sought.
- Undue time pressures imposed by management to resolve complex or contentious issues.
- Complaints by management about the conduct of the audit or management intimidation of engagement team members, particularly in connection with the auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management.
- Unusual delays by the entity in providing requested information.
- Unwillingness to facilitate auditor access to key electronic files for testing through the use of computer-assisted audit techniques.
- Denial of access to key IT operations staff and facilities, including security, operations, and systems development personnel.
- An unwillingness to add or revise disclosures in the financial report to make them more complete and understandable.
- An unwillingness to address identified deficiencies in internal control on a timely basis.

**MACRI PARTNERS**

## Other

- Unwillingness by management to permit the auditor to meet privately with those charged with governance.
- Personal financial pressure
- Vices such as substance abuse and gambling
- Extravagant purchasing or lifestyle
- Real or imagined grievances against the organisation or management
- Increased stress, irritable, defensive and argumentative
- No vacations / sick leave / excessive overtime
- Dominant personality
- Protective of area of administration and missing documents and files from the staff's area
- Accounting policies that appear to be at variance with industry norms.
- Frequent changes in accounting estimates that do not appear to result from changed circumstances.
- Tolerance of violations of the entity's Code of Conduct.

## **7.4 BDO INTERNAL AUDIT REPORT – EXPENSES AND CORPORATE CREDIT CARD PROCESSES**

### **Background**

The objectives of this review were:

- To consider and test the existing framework for approving, authorising, and paying for expenses incurred by members of staff from their own funds, from petty cash, and from the use of the City's Fuel Cards, P-Cards, and CCCs;
- To report findings, observations, and recommendations based on consideration and testing of the systems used for the above purposes.

In particular, BDO tested compliance with the City's established expenses policy and its related staff expenses and card usage processes and procedures.

The following areas were covered as part of the review:

- Preparation, authorisation and processing of staff expenses including those incurred through a CCC and P-Cards;
- Completeness and suitability of the City of Nedlands policies concerning staff expenses and the use of CCCs and P-Cards;
- Compliance with the staff expenses and corporate purchasing, CCC, and P-Card policies as authorised by the City of Nedlands;
- The timeliness and accuracy of accounting for expenses;
- Follow up of the recommendations raised in the Fuel Cards internal audit report of February 2013.

The subject period for this review was from 31 August 2013 to 31 August 2014.

A satisfactory rating was given with one high risk rated finding and 2 low risk rated findings. The report detailing the findings and management comments and agreed actions is attached.

### **Recommendation to the Audit and Risk Committee**

#### **The Audit and Risk Committee:**

1. **Receives the BDO Internal Audit - Expenses and Corporate Credit Card Review; and**
2. **Notes management comments and endorses the agreed actions.**

### **Attachment**

1. BDO Internal Audit - Expenses and Corporate Credit Card Review

17 November 2014

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

Dear Michael,

**City of Nedlands - Expenses and Corporate Credit Card Review**

We write to advise you of the completion of our review of the City of Nedlands' ("the City") Expenses and Corporate Credit Card processes. This review has been conducted in accordance with our agreed Terms of Reference dated 8 September 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

Expenses and Corporate Credit Card Review

October - November 2014

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## 1. EXECUTIVE SUMMARY

### 1.1 Context

In accordance with the 2014/15 Internal Audit Annual Plan, we have completed our review of the effectiveness of the internal controls pertaining to staff expenses and Corporate Credit Cards. The title given to this review is “Expenses and Corporate Credit Card Review”.

In past years, the majority of the City’s minor expenses incurred by staff were claimed through petty cash. In late 2013 the City introduced Purchasing Cards (“P-Cards”) for staff purchases of low value goods and services, such as minor office consumables and comestibles, as a better alternative to using petty cash for these purposes. The P-Cards have credit limits ranging from \$1,000 to \$2,000. For individual purchases that cost more than \$1,000 the City’s staff are required to raise a purchase order through the City’s procurement system.

The City also issues Corporate Credit Cards to senior executives i.e. the Chief Executive Officer (CEO) and Directors. The City’s Corporate Credit Cards (“CCC”) have credit limits ranging from \$5,000 to \$15,000. The expenses incurred through these cards include expenditures for membership fees, conferences, airfares and travel expenses.

The City uses the CCC and P-Card facilities provided by the National Australia Bank (“NAB”). Currently the City has issued CCCs to the CEO and 3 directors, and 38 P-Cards to nominated staff from various departments in the City. The total expenses incurred on all the cards averages about \$12,000 per month.

This report sets out our review of staff expenses incurred by CCCs and P-Cards and our follow up of the fuel card review conducted in 2012/13.

### 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 is reflective of the results of our execution of the review plan. In reaching our assessment we have taken account of the less complex nature and purposes of the systems and their related controls that manage and monitor the processes for employees claiming expenses and using the City’s Purchasing and Corporate Credit Cards.

Notwithstanding the above, we noted from our review that there are some control weaknesses concerning the policies and procedures for the issue, use, acquittal and cancellation of CCCs and P-Cards. For example, the policy and procedure for the use and management of CCCs was issued in 2003 and has not been updated since then; we also noted that the current credit limits on these cards have been increased substantially as compared to the credit limits stated in this policy. Furthermore, we found that there are some controls that are not compliant with the current established policy and procedures for P-Card usage. Our key findings are summarised in the next section.

We believe that the rectification of the identified weaknesses will contribute to raising the overall effectiveness and efficiency of the control environment around P-Cards and CCCs.



### 1.3 Summary of key findings

Our review identified one 'High' risk rated finding. This is summarised in Table 1 below. We have also identified two 'Low' risk rated findings and one 'Improvement Opportunity'. The 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 rated	
3.1.1	<p><b>Inadequate or deficient policies, procedures and guidelines</b></p> <ul style="list-style-type: none"><li>• Outdated and inadequate policy and procedures for controlling the use of the City's CCCs. Common controls would include a process for authorising and documenting changes in credit limits and an independent review process for authorising expenses charged to a CCC;</li><li>• Instances of non-compliance with - or absence of - documented procedures for P-Cards. For example, there is an absence of documented procedures for the cancellation of a P-Card, and the review of end of month reconciliation of P-Card expenses.</li></ul>

### 1.4 Summary of Follow-up Procedures for Fuel Cards Review

As part of our internal audit procedures, we followed up on the status of management's action plans to remedy the weaknesses identified during the 2013 Fuel Cards Review conducted by Grant Thornton.

Our follow-up procedures noted that all issues that were raised by the previous auditors with regard to the City's use of fuel cards have been addressed. The follow-up status is further detailed in Section 4 of this report.

### 1.5 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 objectives of this review are: -

- To consider and test the existing framework for approving, authorising, and paying for expenses incurred by members of staff from their own funds, from petty cash, and from the use of the City's Fuel Cards, P-Cards, and CCCs;
- To report our findings, observations, and recommendations based on our consideration and testing of the systems used for the above purposes.

In particular, we tested compliance with the City's established expenses policy and its related staff expenses and card usage processes and procedures.

### 2.2 Scope of Review

The following areas were covered as part of the review:

- Preparation, authorisation and processing of staff expenses including those incurred through a CCC and P-Cards;
- Completeness and suitability of the City of Nedlands policies concerning staff expenses and the use of CCCs and P-Cards;
- Compliance with the staff expenses and corporate purchasing, CCC, and P-Card policies as authorised by the City of Nedlands;
- The timeliness and accuracy of accounting for expenses;
- Follow up of the recommendations raised in the Fuel Cards internal audit report of February 2013.

The subject period for this review was from 31 August 2013 to 31 August 2014.

At the planning meeting it was agreed that this review would principally cover staff expenses incurred through the use of CCCs and P-Cards.

With regard to the use of Fuel Cards, our fieldwork has been restricted to following up on the internal audit recommendations raised by Grant Thornton in their report of February 2013. Our work was limited to noting the actions taken in respect of their recommendations and excluded any compliance testing to gain evidence that the recommendations have been implemented or of the fringe benefit tax implications of the fuel cards.

For staff expenses claimed by reimbursement through petty cash, these areas were covered in a separate review, namely the Cash and Bank review that we completed in July 2014. Procurement expenses are to be covered in the Procurement and Contract Management Review that is scheduled to begin in November 2014.

A data analytics review was excluded from this review because of the relatively low volume of transactions that are processed by the City in this subject area.

## 2.3 Approach

We executed this review by proceeding through the following steps:

- Held discussions and undertook explanatory system walkthrough interviews with relevant staff from Finance and with the Workshop Co-ordinator of the City's fuel depot, this latter to confirm that the findings from the February 2013 fuel cards internal audit report had been addressed. As a result of this step we were able to determine and document the key systems' functions and controls. This was supplemented by a review of relevant authorised policies and procedures;
- Identified and prioritised the key risks that are inherent within the in-scope processes. Thereafter, we identified the key controls that management has developed and implemented to manage these risks;
- Evaluated the control environment to confirm whether or not all identified risks have been adequately addressed;
- Included the following processes as applied in the use of corporate credit cards and purchasing cards as part of our review:
  - Card issue;
  - Card use;
  - Card acquittal;
  - Card termination, cancellation, and destruction.
- Evaluated the adequacy of the controls as described and documented;
- Obtained documentary evidence and performed sample-based tests to determine whether or not the controls as described have been operating effectively;
- Routinely reported findings and progress to the City, typically on a weekly basis;
- Held a close-out meeting with management at which we will present and discuss our findings and recommendations;
- Prepare and issue our report, first in draft for management comments, then in final form.

### 3. DETAILED FINDINGS

#### 3.1 High Risk-rated Findings

Finding	Potential Risk	Recommendation	Management Comment
<b>3.1.1 Inadequate or deficient policies, procedures and guidelines</b>			
<p>During our review and sample testing conducted on the issue, use, acquittal and cancellation of cards, we noted the following exceptions:</p> <p>a. Corporate Credit Card (CCC)</p> <p>There are deficiencies in the current policy that addresses the use of the City's CCCs. These include the following:</p> <p>i. The policy has not been updated since 2003; business processes may have changed since the time this document was last reviewed.</p> <p>ii. Formal approval on increasing credit limits - currently the CEO is granted a \$15,000 credit limit and the Directors are granted \$5,000. The original and now outdated policy ascribed credit limits to these individuals of \$5,000 and \$1,000 respectively.</p> <p>From our testing, we were unable to obtain evidence whether these limits have been authorised by Management.</p> <p>iii. Formal approval procedures for the expenses incurred by the user of a CCC.</p>	<ul style="list-style-type: none"> <li>CCC holders are defenceless against allegations of misuse of their corporate credit cards because of the absence of up-to-date, adequate, and appropriately authorised policies and procedures to protect them.</li> <li>Expenses incurred resulting from card usage do not fit the needs and purposes of the City;</li> <li>For CCCs, the absence of a formal application document for changes to a card's credit limit may result in improper authorisation and justification, and, owing to these control weaknesses,</li> </ul>	<p>a. Concerning the Corporate Credit Cards (CCCs): -</p> <p>We recommend that Management should: -</p> <p>i. Review and update the policy, procedure and guidelines for the use of CCCs. The current policy and procedure should also be updated with procedures that address the points noted in ii, iii and iv.</p> <p>ii. An approval process for the granting and modification of cards and their related credit limits. The credit limit granted to initial cardholders, or a change of credit limit to an existing card, should</p>	<p><b>Management Action:</b></p> <p>It is acknowledged that while appropriate procedures are practiced these have not been adequately documented. Management accepts the Auditor's recommendations. The CCC Policy will be updated and the other recommendations will be implemented.</p> <p>Management have agreed on the following actions:</p> <ul style="list-style-type: none"> <li>The card cancellation procedure will be fully documented. At present the City maintains a register where the cardholder and the administrator sign off when a card is cancelled.</li> <li>The end of month statement review and invoice reconciliation process will be documented in sufficient detail as to explain who</li> </ul>

### 3.1 High Risk-rated Findings

Finding	Potential Risk	Recommendation	Management Comment
<p>We understand that the purchases made using a CCC by the Directors should be approved and signed by the CEO and the purchases made by CEO should be approved and signed by the Director of Corporate Strategy. However, this approval process was not formally documented in the CCC policy and, from our sampled testing, we noted that 12 out of 12 samples tested did not have an approval signature on either the expense form or the credit card statement.</p> <p>iv. Cardholder agreement on the use of cards.</p> <p>From our sample testing we were unable to obtain evidence that the Corporate Credit Card holders signed a formal agreement concerning the use of their cards. We noted that this was rectified by Finance soon after it was brought to their attention; there is still one outstanding director that has not completed this agreement.</p> <p>b. Purchasing Card (P-Card)</p> <p>We noted that there are written policies, procedures and guidelines for the issue, use, and acquittal of P-Cards. However, we noted the following deficiencies:</p> <p>i. P-Card cancellation and review of month end statement</p> <p>There were procedures for handling card cancellation</p>	<p>leave the card holder and the City vulnerable to audit criticism.</p> <ul style="list-style-type: none"> <li>The absence of detailed instructions and procedures concerning card use and management may result in issues concerning subsequent usage of a card in the event of a card holder leaving the organisation.</li> </ul>	<p>both be authorised and approved by the CEO. If the card holder is the CEO then it should be approved by the delegated Director.</p> <p>iii. A CCC expense approval process. All card expense claim forms and the supporting invoices and/or receipts should be authorised and approved by the CEO or one or more alternate Directors to whom this authority has been delegated;</p> <p>iv. A signed copy of the Cardholder Agreement should be obtained from all cardholders.</p> <p>b. P-Card</p> <p>Management should: -</p> <p>i. Enhance the current policy and procedures to</p>	<p>has reviewed what and how, and the subsequent follow up and clearance of any queries.</p> <ul style="list-style-type: none"> <li>Formalise the policy and procedures using the City of Nedlands official letter head and indicate the current and next review dates in the document.</li> </ul> <p><b>Responsible Official:</b></p> <p>Director Corporate &amp; Strategy</p> <p><b>Implementation Date:</b></p> <p>31 March 2015</p>

### 3.1 High Risk-rated Findings

Finding	Potential Risk	Recommendation	Management Comment
<p>and review of month end statements. However, these procedures were not formally documented in detail in the current P-Card procedures.</p> <p>ii. P-Card procedures documents</p> <p>There was no indication of the current and next review date in the policy and procedure documents.</p>		<p>include a card cancellation procedure. Management may consider implementing a card cancellation form that includes sign offs by the cardholder and accounts department once the card cancellation process has been completed.</p> <p>The end of month statement review and invoice reconciliation process should be documented in sufficient detail as to explain who has reviewed what and how, and the subsequent follow up and clearance of any queries.</p> <p>ii. Formalise the policy and procedures using the City of Nedlands official letter head and indicate the current and next review</p>	



### 3.1 High Risk-rated Findings

Finding	Potential Risk	Recommendation	Management Comment
		dates in the document.	



### 3.2 Medium Risk rated Findings

No medium risk rated findings noted.



### 3.3 Low Risk rated Findings

Finding	Potential Risk	Recommendation	Management Comment
<b>3.3.1 Inadequate P-Card review procedures</b>			
<p>a. Review of P-Card holder list</p> <p>We were advised that a review of the list of P-Card holders was last performed in late 2013. The current P-Card policy does not state a specific time period at the end of which the list should be reviewed.</p> <p>However, we did note that there were procedures on deactivated resigned P-Card holders in the NAB Flexi-Purchase System to prevent unauthorised use of a card.</p> <p>b. Review of P-Card claims</p> <p>During our review we were advised that both the Accounts Payable Officer and the Accountant conduct a review of P-Card statements against the invoices submitted by the P-Card holders at month end. This is to ensure that the transactions claimed are verifiable and are not outside the ordinary course of business. We noted that both the Accounts Payable Officer and the Accountant did not sign off on the statement to indicate that their review had been performed.</p> <p>We were also advised that Card Administrators have performed on the spot checks on the use of P-Cards as per the policy and procedures. However, they did not document and sign off to evidence their review.</p>	<ul style="list-style-type: none"> <li>• Unauthorised use of cards by cardholders who may not need the card due to change of job function, but their access still remains in the system;</li> <li>• Cards granted to staff may not be based on their needs;</li> <li>• The absence of proper review documentation and sign off may imply: - <ul style="list-style-type: none"> <li>➤ lack of assurance that the review has been conducted appropriately;</li> <li>➤ lack of evidence of the review having been performed.</li> </ul> </li> </ul>	<p>a. Review of P-Card holder list</p> <p>We recommend that Management should: -</p> <ul style="list-style-type: none"> <li>• Outline in the P-Card document that the list of Cardholders should be reviewed at least on a bi-annual or yearly basis.</li> <li>• This review should be performed with a view to ensuring that current P-Card holders still have the need to have their P-Cards, and that the approval process remains appropriate. For example, to check that their line managers are still the same person, or whether the staff member has moved to another department.</li> </ul>	<p><b>Management Action:</b></p> <p>The Auditor's recommendations to enhance the procedures are accepted, and will be implemented.</p> <p><b>Responsible Official:</b></p> <p>Manager Finance</p> <p><b>Implementation Date:</b></p> <p>5 January 2015</p>

### 3.3 Low Risk rated Findings

Finding	Potential Risk	Recommendation	Management Comment
		<ul style="list-style-type: none"> <li>The review should be documented and signed off as evidence of having been performed.</li> <li>The P-Card policy should clearly define the acceptable timeframe for review, e.g. Bi-annual or yearly rather than simply a “regular” review.</li> </ul> <p>b. Review of P-Card claims</p> <p>The relevant staff who have performed the review should sign off on the statements as evidence of their review having been performed.</p>	
<b>3.3.2 Insufficient preventative restrictions over card usage</b>			
The CCC and P-Card Policy state that staff are not allowed to withdraw cash using the CCC or P-Card granted to them. We understand that all P-Cards issued to cardholders are restricted by NAB’s system from withdrawing cash via the P-Card. However, a similar restriction has not been	<ul style="list-style-type: none"> <li>Staff may withdraw cash from a CCC and use it for unauthorised purposes</li> </ul>	We recommend that Management should check with NAB if it is possible to implement the same system controls for the CCC as for the	<p><b>Management Action:</b></p> <p>The CCCs are restricted to the CEO and the 3 Directors. There may be emergency situations when it is</p>



### 3.3 Low Risk rated Findings

Finding	Potential Risk	Recommendation	Management Comment
<p>implemented for the CCCs.</p> <p>We did note that the current internal review serves as a detect control if cash withdrawals are made by CCC holders.</p>		<p>P-Card; i.e. to have the system restrict cardholders from withdrawing cash using a CCC.</p>	<p>necessary for cash withdrawal by one or more of these executives. To allow for these emergencies Management believes that asking the Card Issuer to ban the withdrawal of cash is not desirable.</p> <p><b>Responsible Official:</b></p> <p>N/A</p> <p><b>Implementation Date:</b></p> <p>N/A</p>

## 4. Improvement Opportunities

Finding	Improvement Opportunity	Management Comment
<b>4.1. Incomplete P-Card cancellation</b>		
<p>From our testing of P-Card cancellations, we noted that the cancelled cardholder names were deactivated from the NAB system. However, the status of these cardholders had not been deactivated from the Flexi-Purchase System. The particular individuals are :</p> <p><b>Cardholder Name</b></p> <ul style="list-style-type: none"> <li>• Bianca Marson</li> <li>• Dannielle May</li> <li>• Charlotte Darrick</li> <li>• Emma Wallace</li> </ul> <p>We acknowledge that any attempts to use these cards would result in the cards being rejected due to these cards having been cancelled by NAB.</p>	<p>In order to maintain an up to date P-Cards holder list in the Flexi purchase system and for completeness of the card cancellation process, Management should ensure that terminated staff should be deactivated from the Flexi Purchase system.</p>	<p><b>Management Action:</b></p> <p>Management accepts the Auditor's recommendations, and have since implemented them</p> <p><b>Responsible Official:</b></p> <p>Manager Finance</p> <p><b>Implementation Date:</b></p> <p>24 November 2014</p>

## 5. Outcome of Follow-up Procedures for 2013 Fuel Card Review

Finding	Recommendation	Management Comment	Follow Up Status
<b>5.1 Fuel cards - Lack of monitoring and review of procedure</b>			
Discussions with management and our review of the City's procedure "1.17 Use of Council Vehicles" revealed that the City had not reviewed and updated this document since	That the City reviews and updates the "1.17 Use of Council Vehicles" procedure	<p><b>Management Action :</b></p> <p>The recommendation is</p>	<p>Completed.</p> <p>We noted the recommendation has been documented in the newly</p>

Finding	Recommendation	Management Comment	Follow Up Status
<p>March 2009. This has resulted in the procedure not reflecting current practice. Specifically, information pertaining to:</p> <ul style="list-style-type: none"> <li>Officers' unrestricted private use and restricted private use conditions concerning their use of the City's vehicles was inaccurate; the procedure stipulated that officers were not to be issued with fuel cards unless the vehicle was LPG equipped; and</li> <li>Officers' vehicle types and the allocated fuel card records were inaccurate. For example, the Director of Community Services was identified as an officer not allocated a fuel card in the procedure, although the Director actually held a fuel card.</li> </ul>	<p>and other key documents relating to fuel card activities and then monitors it's application on a regular basis.</p>	<p>supported.</p> <p>Procedure 1.17 "Use of Council Vehicles" was re-drafted so that all vehicles with private use would be allocated a fuel card. However, due to turnover of some staff, this was not finalised. The policy is currently being revised by Acting CEO, Mr Michael Cole, and the amended version will be finalised in the near future.</p> <p><b>Responsible Official :</b></p> <p>Acting Chief Executive Officer</p> <p><b>Implementation Date:</b></p> <p>31 January 2013</p>	<p>developed policy.</p>
<b>5.1 Fuel cards - Non-Use of depot fuel station</b>			
<p>Sample based testing of fuel purchases made revealed that officers are selecting to purchase fuel from fuel stations within the proximity of the City's fuel depot.</p> <p>Of the 23 fuel cards used during the month of August 2012, 12 used a fuel station within a 2 kilometre radius of the City's fuel depot. Whilst we could not determine the time of the transactions, we acknowledge that a number of the fuel transactions had occurred over a weekend.</p> <p>However, the majority of the transactions took place on</p>	<p>That the requirement to use the City's fuel depot in the first instance be reiterated to fuel card holders.</p>	<p><b>Management Action:</b></p> <p>It is agreed that the fuelling facilities at the Depot should be utilised whenever possible. The fuel is cheaper than fuel outlets, and the fuel is guaranteed to be clean, due to the use of cleansing additives that are introduced whenever</p>	<p>Completed.</p> <p>We were informed by the Finance Manager that this has been reiterated to staff. Furthermore, it has been included in the new staff Induction Pack for future staff.</p>

Finding	Recommendation	Management Comment	Follow Up Status
week days.		<p>bulk fuel is received.</p> <p><b>Responsible Official :</b></p> <p>Workshop Coordinator</p> <p><b>Implementation Date:</b></p> <p>31 October 2012</p>	
<b>5.3 Fuel card acquittals - Lack of report reviews</b>			
Sample based testing of monthly fuel card reports revealed 2 instances (May 2011 and June 2011) where we could not substantiate whether a check/review had been undertaken by the Management Accountant or Finance Manager, although the costs had been entered and processed by the City's Finance Officer.	That the requirement for monthly fuel card reports to be reviewed and signed off by the Management Accountant and/or Finance Manager be reinforced.	<p><b>Management Action :</b></p> <p>The monthly fuel card transaction reports are scrutinised initially by the Workshop Coordinator, any driver changes are inserted, and officers contacted regarding fuel usage etc. The report is signed and dated by the Workshop Coordinator, then delivered to Finance for processing.</p> <p><b>Responsible Official :</b></p> <p>Manager - Finance</p> <p><b>Implementation Date:</b></p> <p>24 December 2012</p>	<p>Completed.</p> <p>We obtained a sample of their two latest reports. Both had the appropriate sign offs by the Workshop Coordinator and the Finance Manager.</p>

## 6. KEY ENGAGEMENT DETAILS & TIMINGS

### Key engagement details

Date Final Report Issued	17/12/2014
Review Period Covered	31 August 2013 - 31 August 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	21/9/2014	21/9/2014	
Fieldwork commencement	22/9/2014	22/9/2014	
Fieldwork completion	29/9/2014	15/10/2014	
Close out meeting	25/9/2014	17/11/2014	
Draft report sent	16/10/2014	21/11/2014	
Management Comments Received	30/10/2014	1/12/2014	
Final report issued	6/11/2014	17/12/2014	

## Engagement participants

Name	Title
<b>City of Nedlands</b>	
Rajah Senathirajah	Manager - Finance
Vanaja Jayaraman	Coordinator - Financial Accounting
Hassan Shiblee	Finance Officer - Revenue
Shin Lim	Finance Officer - Accounts Payable
Alex McArther	Workshop Coordinator
<b>BDO</b>	
James Manning	Associate Director
Chris Potter	Associate Director - Quality Review
Lih Ling Ma	Senior Manager
Jordan Chang	Consultant



## 7. 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.

## 8. 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.

## 9. 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.

## **7.5 BDO INTERNAL AUDIT – PROJECT MANAGEMENT REVIEW**

### **Background**

The objectives of this review are to provide a report detailing the observations and recommendations resulting from our consideration and testing of the design and effectiveness of the project management procedures adopted at the City, and to propose any potential additional measures that may assist the City in improving its project management skills and practices.

The focus of this review covers the project management activities currently implemented and adopted by the City of Nedlands in managing its projects. The period covered for this Review was from July 2013 to September 2014.

This review excludes the risks related to procurement and contract management. Project-related procurement and contract risk will be covered in our Procurement and Contract Management audit.

A satisfactory rating was given with one 'High' risk-rated finding and two 'Medium' risk-rated findings. BDO also identified four 'Low' risk-rated findings and made two observations. The report detailing the findings and management comments and agreed actions is attached.

### **Recommendation to the Audit and Risk Committee**

#### **The Audit and Risk Committee:**

- 1. Receives the BDO Internal Audit - Project Management Review; and**
- 2. Notes management comments and endorses the agreed actions.**

### **Attachment**

- 1. BDO Internal Audit - Project Management Review**

16 December 2014

Mr Mark Goodlet  
Director of Technical Services

Mr Michael Cole  
Director of Corporate Strategy

City of Nedlands  
71 Stirling Highway  
Nedlands WA 6009

Dear Mark and Michael,

City of Nedlands - Project Management Review

We write to advise you of the completion of our review ("the Review") of the Project Management practices and processes at the City of Nedlands ("the City"). This review has been conducted in accordance with our agreed Terms of Reference dated 5 August 2014. We now enclose our draft 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

## Project Management Review

October - December 2014





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## 1. EXECUTIVE SUMMARY

### 1.1 Context

At the City of Nedlands (the "City"), projects are initiated through either customer requests, internally as a result of a management decision, or as a result of a counsellor's request. There is also a process whereby community groups may initiate a project development process, through the City's "Access to Council Services, Facilities and Functions" procedure. Once a project has obtained approval from Management, it is usually included in the annual budget. This may not be the case, however, if the need for a project arises part way through the financial year. The City typically manages some 50 capital projects per annum with an annual cost of approximately \$6.7 million.

All projects are required to be approved by the City and documented in the Annual Capital Works Program. The Annual Capital Works Program is developed based on the approved 10 year Forward Capital Works Program which is endorsed by the Council and reviewed on an annual basis.

Projects can range from small routine projects and ad hoc/one-off projects to large capital projects. Projects can and do vary significantly in their nature. For example, at any one time the City can be undertaking maintenance projects involving cleaning out drains, repairing pot holes in roads or pavements, and marking lines on roads or car parks, whilst also undertaking infrastructure-building capital works projects involving upgrading park assets, and also IT projects such as developing a Disaster Recovery Plan or implementing new IT systems.

As the internal auditor to the City, BDO has been engaged to undertake a Project Management Review ("the Review") as part of the City's 2014/2015 Internal Audit Annual Plan. The Review has been planned to focus on the City's project management practices and processes with a view to identifying opportunities to enhance the ability of the City's staff to manage projects by suggesting possible improvements to policies, procedures, systems, processes, skills and training, physical resources and capacities or other means as may be identified.

### 1.2 Conclusion

The overall rating for this review is "*Satisfactory*". The report ratings are detailed in section 5 of this report. The "*Satisfactory*" rating was based on our assessment of current practices established in the City for managing their projects, although these practices are not formalised in a Project Management Policy and Framework. However, we did note that these practices and controls are embedded in the City's operations.

We noted that there were ad-hoc procedures in place for project teams to manage project activities on an on-going basis. We also observed that each of the departments have adopted their own system for managing their particular project activities. We were advised that the reason for this is that some projects are routine or small in size, and therefore not readily amenable to a common, structured process.

In our review, we have taken into consideration that a "one size fits all" approach may not be appropriate given the number, diversity, and size of the various projects occurring in the City. However, in our opinion the control framework for project management, as currently operated by the City, could be further improved so that the application of project management disciplines to individual activities can be scalable

to the size, sensitivity, scope and complexity of the project, while also using standardised methodologies to execute, track, and report the status of different projects.

The implementation of a Project Management Framework in the City must balance the need for a fundamental level of consistency across and between departments while also providing flexibility to each directorate to adapt, implement and apply the principles of project management that work best for their department.

As an extension of this observation, we would also recommend that in developing a suitably flexible project management framework, the officers in conjunction with the Council should assess what are the baseline controls and reporting requirements for the project management process. This would then assist in providing both a suitable framework for the officers to operate within and the Council with comfort that they are receiving sufficient project information such that they are able to understand and manage any significant risks in this area.

In doing this we recommend that the City establishes a framework that adheres to the basic disciplines of project management and recognises the importance of the doctrines of project management in the business cycle and in a project's lifecycle. Such an approach would provide the following benefits:

- Consistency in the processes involved in managing projects across all of the City's departments;
- More effective integration of relevant departments' needs in the early phases of a project;
- The effective transfer and sharing of information between departments at the point of project delivery;
- An improved and more sophisticated project management capability and capacity within the City;
- The promotion and support of the continuous improvement of project management understanding and capability within the City.

### 1.3 Summary of key findings

We identified one 'High' risk-rated finding and two 'Medium' risk-rated findings. These are summarised in Table 1 below. We have also identified four 'Low' risk-rated findings and made two observations. The findings and observations are further explained in Section 3 of this report. The definitions of individual ratings are provided at Section 5 of this report.

Table 1: Summary of 'High' and 'Medium' risk-rated findings	
Reference	Findings
High rated	
3.1.1	<p>Lack of formalised project management policies, framework, guidelines and procedures</p> <p>There is no formal overarching project governance and management process available for managing the projects undertaken by the City.</p> <p>We recommend that Management should consider establishing a project governance structure for overseeing all the projects undertaken by the City and develop a project management framework supported by policies, guidelines and procedures that encompass the key aspects of managing project activities in the City.</p>

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

Reference	Findings
Medium rated	
3.2.1	<p>Deficiency in keeping track of project management training for staff</p> <p>We were advised that staff training requirements are evaluated as part of their annual performance appraisal, however, training needs identified were not adequately captured and monitored in a training register to ensure staff received necessary project management training they required.</p>
3.2.2	<p>Inconsistent project risk management practice</p> <p>We noted that project risk registers specific to particular projects are not commonly maintained. Project risks are recorded as an item under the heading of a project's name in the minutes of team meetings. Some departments have been adopting their own risk assessment methodology when assessing project risk. This deviates from the current Risk Management practice operated by the City.</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. DETAILED REPORT

### 2.1 Background

Most of the projects initiated in the City of Nedlands are managed by the following departments:

- Engineering Services;
- Technical Design;
- Park Services;
- Information Technology.

Each of these departments has a dedicated project manager who is responsible for managing and overseeing their projects. Some departments use the Microsoft Project software package for managing their projects, and store their project records in the City's Microsoft SharePoint document library. The City has adopted ad-hoc procedures for managing some projects. There is no established or authorised project management policy and framework in place that governs the City's project management activities.

### 2.2 Objectives

The objectives of this review are to provide a report detailing the observations and recommendations resulting from our consideration and testing of the design and effectiveness of the project management procedures adopted at the City, and to propose any potential additional measures that may assist the City in improving its project management skills and practices.

### 2.3 Scope

The focus of this review covers the project management activities currently implemented and adopted by the City of Nedlands in managing its projects. The period covered for this Review was from July 2013 to September 2014.

Out of scope

This review excludes the risks related to procurement and contract management. Project-related procurement and contract risk will be covered in our Procurement and Contract Management audit.

### 2.4 Approach

In executing this review, we have adopted the following approach:

Obtained an understanding of the City's project management processes and the wider internal control environment

- Held discussions and walkthrough interviews with relevant staff from:
  - Park Services;
  - Technical Design Services;
  - Engineering Services;
  - Information Technology.



From the foregoing discussions we gained an understanding of the key activities that are performed in executing project management processes at the City. This knowledge was supplemented by a review of the City's relevant policies and procedures.

#### Identified and prioritised risks and controls

- Identified and prioritised the key risks that are inherent within the Project Management process. Thereafter, we identified the key controls that management has developed and implemented to manage these risks.
- The following processes as applied during the Project Management lifecycle were covered as part of our review:
  - Initiating
  - Planning
  - Executing
  - Monitoring and controlling
  - Closing
- Assessed the risks and controls involved in the above processes against the key phases in and facets of a project's lifecycle:
  - Governance
  - Planning and scoping
  - Stakeholder management
  - Risk management
  - Issues management
  - Resource management
  - Status reporting
  - Evaluation
  - Project closure

#### Tested the controls

- Carried out detailed testing procedures 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.
- We requested and reviewed all supporting project documentation currently implemented by the City for the management of its project management processes; we noted any exceptions.

#### Reported our findings and tabled our associated recommendations

- Upon conclusion of our fieldwork activities, we conducted a closeout meeting with management to discuss the findings arising from these.
- We then prepared a draft report (this report) highlighting key findings from our fieldwork and recommendations to address identified weaknesses. Next we will discuss the draft report with management to validate the accuracy of our findings and to ensure that our recommendations are practical and commercial in nature.
- Once management comments in relation to our findings have been received, we will finalise the report for distribution.

### 3. DETAILED FINDINGS

#### 3.1 High Risk-Rated Findings

Finding	Risk	Recommendation	Management Comment
3.1.1 Lack of formalised project management policies, framework, guidelines and procedures			
<p>We noted that currently Project Managers from various departments in the City have adopted differing practices for managing the projects undertaken by them.</p> <p>We understand that the nature of the projects undertaken by different departments may vary, and that a “one size fit all” model may pose constraints. However, we believe that a more generic and consistent approach will help to:</p> <ul style="list-style-type: none"> <li>• Make sure that projects are managed in the best way possible and thus increase the likelihood of projects being “on time and on budget”;</li> <li>• Create a shared understanding of the basic disciplines of project management and delivery;</li> <li>• Develop project management expertise that can be used across the City’s departments;</li> <li>• Better identify dependencies across programmes and corporate objectives;</li> <li>• Help share projects’ “lessons learned”.</li> </ul> <p>During our review, we noted that one of the departments under review had adopted good project management practices. We believe it would be advantageous to the City to develop</p>	<ul style="list-style-type: none"> <li>• Uneconomic, ineffective and inefficient execution of project activities due to lack of project guidance and control from management.</li> <li>• Lack of support from management in the delivery of projects.</li> <li>• Duplication of effort in managing joint project activities due to lack of communication between departments.</li> <li>• Loss of expertise and domain knowledge in project management when staff change jobs or transfer to another department.</li> <li>• Undefined baseline of control expectations established by those ultimately accountable i.e. the Council.</li> </ul>	<ul style="list-style-type: none"> <li>• Management should develop and communicate formal project management policies, a project management framework, and guidelines and procedures that encompass all of the key aspects of managing project activities in the City.</li> </ul> <p>The project management policies, framework, guidelines and procedures developed should be tailored to the City’s project management needs and support the consistent application of sound project management principles to the wide range of projects in the City’s portfolio of capital and operational works.</p> <p>This framework should at least encompass the following key items:</p> <ol style="list-style-type: none"> <li>a) Project life-cycle management</li> <li>b) Project governance and ownership</li> <li>c) Stakeholder management</li> <li>d) Communications management</li> <li>e) Internal/external vendor management</li> <li>f) Transition management</li> </ol>	<p>Management Action:</p> <p>Agreed. Protocol and templates to be provided on intranet. It is management’s intention that the project plan becomes a living document once approved.</p> <p>Responsible Official:</p> <p>Phoebe Huigens</p> <p>Implementation Date:</p> <p>End of April 2015</p>

### 3.1 High Risk-Rated Findings

Finding	Risk	Recommendation	Management Comment
this department's practices further with a view to introducing them across all departments that are involved in managing projects.		<ul style="list-style-type: none"> <li>g) Project initiation</li> <li>h) Project planning and scope</li> <li>i) Project risk management</li> <li>j) Project issues management</li> <li>k) Project change management</li> <li>l) Project quality assurance</li> <li>m) Project execution</li> <li>n) Project monitoring and control</li> <li>o) Project reporting</li> <li>p) Project evaluation, staff training (as required), hand-over, acceptance, closure, and "lessons learned" review</li> </ul>	

### 3.2 Medium Risk-Rated Findings

Finding	Risk	Recommendation	Management Comment
<p>3.2.1. Deficiency in keeping track of project management training for staff</p> <p>We understand that most of the staff who are involved in project management activities are trained on an “on the job training” basis. It was reported to us that there is no formalised Project Management training provided to staff in managing projects. For example, training on project management practices, project management tools such as MS Project, communication skills, protocols, and techniques for keeping all stakeholders fully informed as to a project’s co-ordination, progress and obstacles, and project risk assessment procedures are notable areas where improvements could be made.</p> <p>We were advised that that staff training requirements are evaluated as part of their annual performance appraisal. However, training needs identified were not adequately captured and monitored in a training register.</p> <p>Notwithstanding the above, we understand that, subject to a request by a staff member, external project management training may be provided.</p>	<ul style="list-style-type: none"> <li>Staff whose skills in project management may be deficient could be managing projects sub-optimally. This could result in inadequacies in the project as delivered or even project failure.</li> <li>Important practical and control aspects of a project’s lifecycle are not being considered or addressed.</li> </ul>	<p>We recommend that, once a project management framework, policies, guidelines and procedures have been established by the City, training should be provided to the key staff involved in managing projects on the policies and procedures that are to be implemented.</p> <p>Project management staff’s skills evaluation and training needs should be formally monitored on a regular basis to identify and address any skill gaps.</p> <p>All key members of staff involved in project management should be sent on essential project management courses such as using MS Project, Principles of Project Management, and Project Risk Assessment etc.</p>	<p>Management Action:</p> <p>Agreed. However an integrated approach is to be used which aligns with annual and 6 monthly performance reviews. Manager to budget in training budgets as required.</p> <p>Responsible Official:</p> <p>Manager HR</p> <p>Implementation Date:</p> <p>End of April 2015</p>

### 3.2 Medium Risk-Rated Findings

Finding	Risk	Recommendation	Management Comment
3.2.2 Inconsistent project risk management practices			
<p>From our interview with key project management staff and our review of project management information, we noted the following:</p> <ul style="list-style-type: none"> <li>Risks in relation to projects are discussed as part of the monthly Technical Service Department meeting. These risks are then documented as part of the minutes of the meeting. There is no formal project risk register maintained for each of the projects undertaken by the respective departments i.e. Park Services, Technical Design Services. However, we note that Engineering Services has adopted a methodology for documenting project risks in a project risk register.</li> <li>Some departments are adopting their own risk assessment methodology when assessing project risk. This deviates from the current Risk Management practice authorised by the City.</li> <li>Key project management staff do not know where to locate the current Project Risk Register template. We understand that this may be due to Management currently revising the Risk Management Framework and templates, and that these will be made available for staff access on the City's intranet.</li> </ul>	<ul style="list-style-type: none"> <li>Failure to identify and manage project risks resulting in those risks materialising.</li> <li>Important risks that may impact a project are not addressed, mitigated, or prevented. This could lead to project failure.</li> <li>Missing one or more risks because the risks associated with a project have not been documented in a risk register created for an individual project. As a result no action has been taken to mitigate or obviate the risk.</li> <li>Project risks may not be assessed and addressed continuously throughout the project lifecycle.</li> </ul>	<p>We recommend that:</p> <ul style="list-style-type: none"> <li><b>A)</b> Key project management staff should be trained in the Project Risk Assessment procedure currently operated by the City.</li> <li><b>B)</b> A standard Project Risk Register template with all related project risks should be documented and made available on the City's intranet.</li> <li><b>C)</b> Project Managers should use the project risk register and add specific risks that relate to their projects.</li> <li>Project teams should also maintain the risk register for each project throughout the project's lifecycle.</li> </ul>	<p>Management Action:</p> <p>Agreed. Risk Management Plan to be separated from PMP where project is deemed of sufficient scale. Project assessment process to identify this.</p> <p>Responsible Official:</p> <p>A) Phoebe Huigens B) Phoebe Huigens C) Project Manager</p> <p>Implementation Date:</p> <p>End of June 2015</p>



### 3.3 Low Risk-Rated Findings

Finding	Risk	Recommendation	Management Comment
3.3.1 Project classification			
<p>We note that project sizing and related documentation requirements are currently assessed based on the professional judgement or discretion of the Department Director. The assessment is performed based on the project information and criteria contained in the Project Initiation form.</p> <p>We were advised that projects which cost more than \$10,000 will be capitalised and are required to have a project plan. However, this criterion has not been formalised and documented.</p> <p>A formalised project classification framework will help management to determine the size, risk, and complexity of a project. This will in turn assist the Project Manager in managing the project's activities based on the classification.</p>	<ul style="list-style-type: none"> <li>• Lack of guidance and confusion in the absence of a formal project classification framework.</li> <li>• Inconsistent project management practices.</li> <li>• Size of project not appropriately determined resulting in important aspects of project management practices not being followed.</li> <li>• Lack of a standard methodology for classifying projects leading to possibly inadequate levels of project management, control, and related auditable documentation.</li> </ul>	<p>Management should enhance its current project assessment criteria and develop a formal project sizing and classification guide. This should outline the attributes of small, medium and large projects, and the requirements concerning project documentation and the practices needed based on the project's size and risk profile.</p> <p>In developing the above definitions, management should consider the following attributes as a minimum:</p> <ul style="list-style-type: none"> <li>• Timeframe</li> <li>• Complexity</li> <li>• Costs</li> <li>• Impact to stakeholders</li> <li>• Strategic alignment</li> <li>• Political alignment</li> <li>• Preliminary risk analysis</li> </ul> <p>Thereafter Management should develop documentation requirements for each project within the framework provided by the</p>	<p>Management Action:</p> <p>Agreed Current Project Plan and Project Implementation Document contains project scale assessment. This is to be reviewed.</p> <p>Responsible Official:</p> <p>Phoebe Huigens</p> <p>Implementation Date:</p> <p>End of May 2015</p>

### 3.3 Low Risk-Rated Findings

Finding	Risk	Recommendation	Management Comment
		<p>classification guide. These would include:</p> <ul style="list-style-type: none"><li>• Level of detail required in project documentation</li><li>• Overall project documentation requirements</li><li>• Document audience (i.e. project level, departmental level, Council level)</li><li>• Required delegated authorities and approvals for the scale of the project.</li></ul> <p>The project sizing for individual projects should be reviewed, approved, and signed off by the relevant authorised approver.</p>	

### 3.3 Low Risk-Rated Findings

Finding	Risk	Recommendation	Management Comment
3.3.2 Project closure and evaluation			
<p>From our review of project closure procedures we found the following:</p> <ul style="list-style-type: none"> <li>IT Project closure is often not completed on a timely basis after project closure. We were advised this is mainly due to resource and time constraints.</li> <li>For non IT Projects, the project closeout meeting is held to discuss lessons learned, outstanding items etc. However, this was not documented in the project closure or handover documents for approval and sign off.</li> <li>There is no formal process to conduct post implementation reviews.</li> </ul>	<ul style="list-style-type: none"> <li>Outstanding items not being followed-up.</li> <li>Lack of proper handover.</li> <li>Unable to assess project's KPIs.</li> </ul>	<p>We recommend that Management should stress the importance of completing project closure and evaluation. Proper resources and time should be allowed for completing this phase of a project's lifecycle.</p> <p>A formal process should be established to complete project closure and evaluation with objective evaluation criteria, an authoritative review, and properly authorised approval and sign off.</p>	<p>Management Action: Agreed.</p> <p>Responsible Official: Phoebe Huigens</p> <p>Implementation Date: End of April 2015</p>
3.3.3 Project roles and responsibilities			
<p>We noted that most departments did not formally assign and communicate the roles and responsibilities of their projects' stakeholders.</p> <p>We were also advised that some key project members are frustrated as they are unclear of their roles and responsibilities in the Projects being undertaken by them.</p>	<ul style="list-style-type: none"> <li>Project roles and responsibilities have not been defined leading to a lack of direction, support, ownership, leadership, and poor project outcomes.</li> <li>Loss of good staff.</li> <li>Inefficiencies leading to financial loss.</li> </ul>	<p>Project roles and responsibilities should be clearly defined and communicated to the Project team.</p> <p>Project management and participants' roles and responsibilities are usually documented and communicated in the Project Communication Plan. It is normal good practice to disseminate this plan to all Project stakeholders.</p>	<p>Management Action: Agreed via Project Plan</p> <p>Responsible Official: Phoebe Huigens</p> <p>Implementation Date: End of April 2015</p>

### 3.3 Low Risk-Rated Findings

Finding	Risk	Recommendation	Management Comment
<p>3.3.4 Project change and issue management</p> <p>From our review of the City's project change management processes, we noted the following:</p> <ul style="list-style-type: none"> <li>Budget and work schedule variations for capital works and changes are discussed in the Technical Services Department meeting. There is no formal process to report and approve changes on a "by project" basis. If a project's variation is greater than a certain % then this should be reported with approval required before the change can be accepted.</li> <li>IT project change management issues are dealt with on an ad-hoc basis without formal documentation. Currently IT project issues are reported and approved by email.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of proper authorisation and approval on changes made to projects.</li> <li>Lack of decision making process.</li> <li>Lack of management oversight.</li> </ul>	<p>A) We recommend that project changes should be formally discussed and approved by key project stakeholders, and authorised by an individual with the delegated authority to sign off on the level of change sought.</p> <p>B) A changes and issues register should be maintained on a "by project" basis rather than being recorded in the minutes of meetings.</p>	<p>Management Action:</p> <p>A) Agreed</p> <p>B) Contained in project documentation, eg Project Meeting minutes</p> <p>Responsible Official:</p> <p>Phoebe Huigens to add to change management and issue in project plan</p> <p>Implementation Date:</p> <p>End of June 2015</p>

### 3.4 Improvement Opportunity

Finding	Risk	Recommendation	Management Comment
3.4.1 Project management information			
<p>We observed that some departments maintained their project documents and correspondence in project folders created in Sharepoint. Each project is allocated a project folder to store the key project documents and correspondence.</p> <p>However, we note that not all project documentation is kept in SharePoint. Some project documents are kept in TRIM, on the local drives of desktop computers, and/or in emails in the Microsoft Exchange database.</p>	<ul style="list-style-type: none"> <li>Loss of key project documents and correspondence.</li> </ul>	<p>We recommend that Management should set up a standard structure for storing project file folders and related project documents, as well as applying version control over key project documents.</p> <p>All key project documentation with proper approval should be maintained and kept in SharePoint for record keeping, follow up, reference, and audit purposes.</p> <p>This policy should be communicated to all departments and become a required standard practice.</p>	<p>Management Action: Agreed - Sharepoint</p> <p>Responsible Official: Ongoing by each Project Manager</p> <p>Implementation Date: Ongoing</p>
3.4.2 Project management templates			
<p>From our review, we noted that currently the project document templates available in the City are limited to Project Initiation, Project Plan, Community Engagement Plan, and Risk Management.</p> <p>We understand that the Project Plan template was drafted in 2010. We were advised this template is out of date and this has resulted in various departments customising and implementing their own template for documenting their project plans.</p> <p>In addition we noted that the current project management templates do not account for the varying complexity and size of projects, i.e. the</p>	<ul style="list-style-type: none"> <li>Important basic and standard project information may not be captured if individual project managers document the project information at their own discretion.</li> <li>Ineffective and inefficient in ensuring that aspects of a project are addressed.</li> <li>Lack of guidance and</li> </ul>	<ul style="list-style-type: none"> <li>In consultation with the managers of key business areas and project stakeholders, and having regard to the varying complexities and sizes of projects and the needs of sound project management practice, management should develop project management templates, forms, and checklists for each stage of the project management life-cycle such as: <ul style="list-style-type: none"> <li>a) Initiation <ul style="list-style-type: none"> <li>i. Project Brief</li> <li>ii. Business Case</li> <li>iii. Preliminary Project Scope</li> </ul> </li> </ul> </li> </ul>	<p>Management Action: Agreed</p> <p>Responsible Official: Phoebe Huigens</p> <p>Implementation Date: End of June 2015</p>



### 3.4 Improvement Opportunity

Finding	Risk	Recommendation	Management Comment
<p>current Project Plan is a "one size fits all" approach and does not take into account the needs of individual business areas, for example by having different project templates for small, medium, or large projects.</p> <p>Feedback received from staff involved in project management was to the effect that the current project management templates should be reviewed, updated and revised.</p>	<p>support on completing project documentation.</p>	<p>b) Planning</p> <ul style="list-style-type: none"> <li>i. Project Management Plan</li> <li>ii. Project timeline and Gantt chart</li> <li>iii. Project budget</li> <li>iv. Resource Plan</li> <li>v. Quality Plan</li> <li>vi. Stakeholder Communication Plan</li> <li>vii. Risk Management Plan</li> <li>viii. Risk Register</li> <li>ix. Issues Register</li> </ul> <p>c) Execution</p> <ul style="list-style-type: none"> <li>i. Tender Specifications</li> <li>ii. Project Management Team Minutes</li> <li>iii. Project Implementation Plan</li> <li>iv. Training Plan</li> <li>v. Contractor's Brief</li> <li>vi. Project Status Reports</li> </ul> <p>d) Monitoring and Controlling</p> <ul style="list-style-type: none"> <li>i. Performance Reporting</li> <li>ii. Status Reports</li> <li>iii. Cost Reports including variances</li> <li>iv. Updates to the Risk Register</li> <li>v. Updates to the Issues Register</li> <li>vi. Stakeholder Correspondence</li> </ul> <p>e) Closing</p> <ul style="list-style-type: none"> <li>i. Project Evaluation and Closure Report</li> <li>ii. Project Compliance Report (if applicable, i.e. Grant Reporting)</li> <li>iii. Certificate of Practical</li> </ul>	

### 3.4 Improvement Opportunity

Finding	Risk	Recommendation	Management Comment
		<p>Completion</p> <p>iv. Lessons Learned Register</p> <p>v. Handover Plan</p> <ul style="list-style-type: none"><li>• The existing Project Management documents described in the findings should be reviewed and updated. These documents should be updated following consultation with key project stakeholders of the City.</li></ul>	

## 4. KEY ENGAGEMENT DETAILS & TIMINGS

### Key engagement details

Review Period Covered	July 2013 to September 2014
BDO Engagement Director	James Manning
Draft Report to be issued to Client Sponsor	Mark Goodlet (Director of Technical Services) Michael Cole (Director of Corporate & Strategy)

### Key engagement timings

Key Events	Expected Date	Actual Date	Comments on Variations
Planning Meeting	30/7/2014	30/7/2014	
Fieldwork commencement	18/08/2014	19/08/2014	
Fieldwork completion	25/08/2014	29/08/2014	Staff unavailable for walkthrough meetings.
Close out meeting	25/08/2014	2/09/2014	
Draft report sent	15/09/2014	15/10/2014	
Management Comments Received	29/09/2014	12/12/2014	
Final report issued	6/10/2014	16/12/2014	

## Engagement participants

Name	Title
City of Nedlands	
Michael Cole	Corporate Strategy - Director
Mark Goodlet	Technical Services - Director
Andrew Dickson	Park Services - Manager
Maria Hulls	Engineering Services - Manager
Jacqueline Scott	Technical Services - Manager
Nalin Dias	Coordinator - IT
Rachelle Hannah	GIS Analyst
BDO	
James Manning	Associate Director, Engagement
Chris Potter	Associate Director, Quality Assurance
Lih Ling Ma	Senior Manager
Jonathan Tukimin	Senior Consultant

## 5. RISK RATINGS

### Overall report rating

Ratings awarded represent the conclusions of our work based on the results of our testing of a process or 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 risk 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 risk 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 a 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.



## 6. 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 report the sources of the information provided. We have not sought to verify those sources independently unless otherwise noted within the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed with management. The findings in this report have been formed on the above basis.

## 7. RESTRICTION OF USE

This report is solely for the purposes as set out in the Objectives 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. Neither BDO, nor any member or employee of BDO, accepts any responsibility arising from reliance placed by a third party on this report; any reliance placed is at that party's sole responsibility.

## **7.6 BDO INTERNAL AUDIT – 2015/2016 INTERNAL AUDIT PLAN**

### **Background**

The Council appointed BDO as Internal Auditors for a term of 3 years. Following on from the approved 3 year strategic internal audit plan, a detailed annual internal audit plan for 2015/16 has been developed and is attached.

The annual internal audit plan details the scope of each review, the manager(s) responsible for each audited area, and the Audit Committee meeting dates where BDO intend to present the final report for each audit. Note, the outline scope may change as a result of the detailed audit planning process. Final reports will be presented to the Executive Team prior to being presented to the Audit Committee. The fieldwork will be scheduled to ensure the Annual Plan for 2016/17 is delivered by 31 March 2016. The 2015

### **Recommendation to the Audit and Risk Committee**

**The Audit and Risk Committee notes and endorses the 2015/2016 Internal Audit Plan from BDO.**

### **Attachment**

1. BDO Internal Audit - 2015/2016 Internal Audit Plan



# CITY OF NEDLANDS

Annual Internal Audit Plan 2015/16

April 2015



# 2015/16 INTERNAL AUDIT ANNUAL PLAN

## Detailed Breakdown For Current Year

Following on from the approved 3 year strategic internal audit plan detailed in appendix 1, a detailed annual internal audit plan for 2015/16 has been developed and is set out below. The annual internal audit plan details the scope of each review, the manager(s) responsible for each audited area, and the Audit Committee meeting dates where we intend to present the final report for each audit. Note, the outline scope may change as a result of the detailed audit planning process.

Please note that the dates captured in the plan are provisional and have yet to receive final agreement from management.

Final reports will be presented to the Executive Team prior to being presented to the Audit Committee.

The fieldwork will be scheduled to ensure the Annual Plan for 2016/17 is delivered by 31 March 2016.

Audit area	Days	Outline audit details	Scheduled Start Date	Potential Audit Committee Date	Management Lead
Core Assurance					
Payroll	3	<p>The objectives of the review will be to test that:</p> <ul style="list-style-type: none"> <li>Only bona fide employees are paid for work performed and are paid on time. Correct pay rates are used to make the payment</li> <li>Robust access controls exist in relation to the electronic payroll processes and security of supporting documents</li> <li>The system is secure and there are adequate segregation of duties</li> <li>Amendments to the payroll are valid, accurate and processed in a timely manner</li> <li>Payroll costs are correctly accounted for.</li> </ul> <p>Given the budget for this review, we will perform a high level review of the key risks and controls only. Testing will be limited to walkthroughs only.</p>	April 2015	TBD	Rajah Senathirajah (Up to 1 <sup>st</sup> May 2015)
Account Payable	4	<p>The objectives of the review will be to:</p> <ul style="list-style-type: none"> <li>Evaluate internal controls over the account payable process;</li> <li>Verify that the payments were made correctly , accurately accounted for, timely and properly supported;</li> <li>Review for duplicate payments; and</li> <li>Evaluate compliance with policy, procedures and with laws and regulations.</li> </ul>	June 2015	TBD	Rajah Senathirajah (Up to 1 <sup>st</sup> May 2015)

# 2015/16 INTERNAL AUDIT ANNUAL PLAN

## Detailed Breakdown For Current Year



Audit area	Days	Outline audit details	Scheduled Start Date	Potential Audit Committee Date	Management Lead
Core Assurance					
Budgeting, forecasting and management accounting	3	<p>The objective of the review will be to test the controls that management has implemented to manage the risks inherent within budgeting and forecasting practices and the associated management processes.</p> <p>As part of the review we will also review;</p> <ul style="list-style-type: none"> <li>• The overall efficiency of the budget process;</li> <li>• Whether appropriate and supported documentation exists for preparing financial budgets and the end of year (EOY) forecasts;</li> <li>• That clear responsibilities for staff members in the budget setting and forecast processes have been established;</li> <li>• Comparison of variances in actual performance against the budget and how they are used to control financial performance.</li> <li>• The approval process of the FY2015 budget.</li> </ul>	September 2015	TBD	Rajah Senathirajah (Up to 1 <sup>st</sup> May 2015)
Fixed Asset Management (including security arrangement)	5	<p>The objectives of the review will be to assess whether or not:</p> <ul style="list-style-type: none"> <li>• An up to date fixed asset register has been maintained;</li> <li>• Proper validation of approvals for fixed asset acquisitions within the applicable audit period has been obtained;</li> <li>• Procedures for maintaining City's depreciation schedules have been properly followed;</li> <li>• The processes and controls in place to capitalise City's fixed assets over their useful life have been followed correctly; and</li> <li>• Fixed asset cost reporting to the balance sheet and general journal processing has been accurate.</li> <li>• Fixed asset disposals, write offs, scrapping and / or potential physical loss or damage has been accounted for.</li> </ul>	February 2016	TBD	Rajah Senathirajah (Up to 1 <sup>st</sup> May 2015)
Follow Up of Management Actions	2	Each year we will determine, with Management, which previous recommendations need to be followed up independently by Internal Audit.	January 2016	TBD	Rajah Senathirajah (Up to 1 <sup>st</sup> May 2015)



# 2015/16 INTERNAL AUDIT ANNUAL PLAN

## Detailed Breakdown For Current Year



Audit area	Days	Outline audit details	Scheduled Start Date	Potential Audit Committee Date	Management Lead
IT and Specialist					
Information Technology General Controls (ITGC)	6	<p>The objective of the review is to assess the adequacy of City's IT environment controls and test that City's IT infrastructure and support is planned, managed, and maintained to support efficient operations.</p> <p>The ITGC review will cover the following areas:</p> <ul style="list-style-type: none"> <li>• Security controls over physical access to server room (review the external service SLA for computer centre, if available);</li> <li>• Security controls over logical access to systems/applications and data, these included: <ul style="list-style-type: none"> <li>➢ Network access level e.g. Windows Active Directory;</li> <li>➢ Core business application access;</li> <li>➢ Folder access level i.e. where critical files are stored e.g. critical financial spreadsheet, HR files, Payment files etc.</li> </ul> </li> <li>• Back-up and restore ;</li> <li>• IT infrastructure (network/system/application) change management and administration.</li> </ul>	May 2015	TBD	Mike Fletcher
Operational					
Planning services	8	<p>The review objective is to assess the</p> <ul style="list-style-type: none"> <li>• Adequacy of management control framework relating to planning services;</li> <li>• Appropriate management arrangements for the delivery of the City's planning services;</li> <li>• Extent to which the City's is complying with key legislations, planning scheme, policies, procedures, guidelines, and other requirements in providing planning services.</li> </ul>	July 2015	TBD	Peter Mickleson

# 2015/16 INTERNAL AUDIT ANNUAL PLAN



## Detailed Breakdown For Current Year

Audit area	Days	Outline audit details	Scheduled Start Date	Potential Audit Committee Date	Management Lead
Operational					
Fleet management	4	<p>The objective of the review is to assess the</p> <ul style="list-style-type: none"> <li>Adequacy of the management control framework and related risk management strategies for the fleet management function, including processes relating to the planning, organizing, controlling, directing, communicating, and the management of vehicle assets;</li> <li>Extent to which the City's is complying with policies, procedures, guidelines, and with laws and regulations pertaining to fleet management.</li> </ul>	October 2015	TBD	Mark Goodlet
Management Activities					
Audit Committee - preparation, attendance and follow-up	2				
General liaison (including meetings)	2				
Annual planning	1				

# APPENDIX 1 : APPROVED 3 YEAR INTERNAL AUDIT STRATEGIC PLAN



Corporate/Governance/Strategic	'Extreme' or 'High' risks identified in the operational risk in relation to this area	2014-15	2015-16	2016-17	Estimated number of days per year	Estimated hours	Estimated cost of the audit (\$) exc. GST
Corporate Governance Structure <sup>1,2</sup>				✓	2	14	1,610
Risk Management Framework <sup>1,2</sup>		Completed			2	14	1,610
Fraud prevention management (to include anti-bribery and corruption) <sup>1,2</sup>				✓	2	14	1,610
Core Assurance							
Core Financial Systems (to be scoped yearly but to include): <sup>3</sup> - Accounts Payable - Accounts Receivable - Budgeting, forecasting and management accounts - Expenses and company credit cards - Capital Expenditure - Income - Payroll - Cash and Bank	Yes	Completed for • Expenses and company credit cards • Cash and bank	✓	✓	10	70	8,050
Fixed Asset Management (including security arrangements)			✓		5	35	4,025
Follow-up of management actions <sup>4</sup>		Not started	✓	✓	2	14	1,610
Investments Management				✓	5	35	4,025

## Notes:

- 1 - As part of our induction process, it would be helpful to gain an appreciation of the Risk Management framework in place at the City of Nedlands in order to understand the City of Nedlands governance structure, its risk exposures, its risk appetite, and the mechanisms in place to manage organisational risk.
- 2 - We would next wish to conduct a high level diagnostic review of corporate governance, risk management procedures, and fraud prevention measures to identify any deficiencies in these areas, and to give us a high level overview of these key facets of the City of Nedlands operating environment.
- 3 - We propose conducting Core Financial Systems audits each year. The timing and sequence of these audits will be determined with management at the beginning of each year.
- 4 - Each year we will conduct a follow-up review to ensure that the recommendations raised in previous years have been implemented by management.

# APPENDIX 1 : APPROVED 3 YEAR INTERNAL AUDIT STRATEGIC PLAN



Operational/Emerging Risks/Support	'Extreme' or 'High' risks identified in the operational risk in relation to this area	2014-15	2015-16	2016-17	Estimated number of days per year	Estimated hours	Estimated cost of the audit (\$) exc. GST
Capital Works		In progress.			7	49	5,635
Project Management		Completed.			6	42	4,830
Planning Services	Yes		✓		8	56	6,440
Procurement and Contract Management	Yes	Completed.			7	49	5,635
Waste Services	Yes			✓	4	28	3,220
Fleet Management			✓		4	28	3,220
HR	Yes			✓	5	35	4,025
IT, Specialist and Advisory Audits							
Information Technology Controls	Yes		✓		6	45	4,830 <sup>5</sup>
Business Continuity Management (including Disaster Recovery)	Yes	In progress.			4	28	3,220
Data Security/Information Security	Yes			✓	5	35	4,025

## Notes:

5 - BDO will not charge a different rate for the IT internal audit assignments.

# APPENDIX 1 : APPROVED 3 YEAR INTERNAL AUDIT STRATEGIC PLAN



Management Activities	'Extreme' or 'High' risks identified in the operational risk in relation to this area	2014-15	2015-16	2016-17	Estimated number of days per year	Estimated hours	Estimated cost of the audit (\$) exc. GST
Audit Committee - Preparation, attendance and follow-up		✓	✓	✓	½ day	4	NO CHARGE
General liaison (including meetings)		✓	✓	✓	2	14	
Annual planning		✓	✓	✓	1	7	
TOTAL FIRST YEAR FEE					38	266	30,590
TOTAL SECOND YEAR FEE					35	245	28,175
TOTAL THIRD YEAR FEE					35	245	28,175



Date of next meeting

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

**Declaration of Closure**

There being no further business, the Presiding Member will declare the meeting closed.

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

Greg Trevaskis  
Chief Executive Officer