

# PAXON

## TOWN OF VICTORIA PARK

Procurement Internal Audit Review

November 2023

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# 1. INTRODUCTION

## 1.1 Background & Objective

An internal audit review of procurement was included within the risk based strategic internal audit plan that was endorsed by the Audit & Risk Committee ('ARC').

The objective of our review was to provide a report to management and the ARC on the design and operational effectiveness of procurement processes in place within the Town.

## 1.2 Risks & Scope

Our work included review of the design effectiveness of processes and controls within the following areas, and testing of their operational effectiveness during the period 1/1/22 to 31/12/22:

- Good procurement policies and guidelines and alignment with legislation and regulation
- Procurement practices are in alignment with documentation
- Appropriate training is provided to staff
- Controls over raising and approving purchase orders
- Processes for checking goods and services when receiving them
- Appropriate segregation of duties
- Exemptions from seeking quotes are well documented and justified
- Recording of tender processes and conflicts of interests
- Supplier credentials are checked, particularly for high-risk or high value purchases, including:
  - o confirming ABN, and
  - o confirming directors are not bankrupt or disqualified.
- Contract register is maintained and monitored for contract expiry dates
- Expenditure is monitored to identify areas of spend where contracts are not in place, or the appropriate procurement processes were not followed
- Tender register is in place, complete and accurate, and
- Systems access is aligned with Delegated Authority and does not undermine intended segregation of duties.

## 2. EXECUTIVE SUMMARY

Based upon the work performed we have identified that findings in relation to both the design and operational effectiveness of processes and controls.

Two high rated recommendations were noted in relation to:

- Improving segregation of duties or independent oversight controls over purchasing processes and in particular the approval of purchase orders, receipting of goods and approving invoices; and
- Oversight of delegations to ensure they are used appropriately.

Other areas for improvement were also noted for regular review of authorisation limits within the finance system, conflicts of interest declarations, verification of supplier credentials and invoices received prior to purchase order being approved.

It was noted that the Town is in the process of updating its Purchasing Policy and Procurement Management Practice. The Policy has previously been submitted to Policy Committee and is undergoing further review and as such the review and update of these documents has not been included as a finding within this report. Findings within this report should be considered within the update of the purchasing and procurement documents.

Findings are summarised below and documented in detail within section 5 of this report.

Reference	Finding	Risk Rating
5.1	Segregation of Duties	High
5.2	Use of Delegation	High
5.3	Finance Delegations	Medium
5.4	Conflict of interests	Medium
5.5	Unverified supplier credentials	Medium
5.6	Invoice date precedes purchase order date	Medium
5.7	Incomplete records management system	Low
5.8	Tender register compliance	Low
5.9	Incomplete contracts register	Low

We would like to thank all officers that assisted with the performance of this review.

### 3. METHODOLOGY

Our methodology for this review comprised of the following steps:

- Conducted an initial meeting with management to obtain an understanding of processes and potential issues.
- Developed overview documentation of the processes including key controls by discussion with staff and review of the processes.
- Evaluated the effectiveness of the design of controls to cover the identified risk and tested the operation of the key controls.
- Followed up and confirmed action taken on any previous business issues identified and recommendations made.
- Researched the issues, weaknesses and potential improvements noted from our discussions and review of the existing processes and identified key controls.
- Developed appropriate recommendations for improvement for discussion with management.
- Drafted a report of findings and recommendations and obtained formal responses from management; and
- Finalised the report and issued it to Management for distribution to the Audit and Risk Committee.

Each finding detailed in section 5 is rated based on the following scale:

Rating	Definition
<b>High</b>	Major contravention of policies, procedures or laws, unacceptable internal controls, high risk for fraud, waste or abuse, major opportunity to improve effectiveness and efficiency, major risk identified. Immediate corrective action is required. A short-term fix may be needed prior to it being resolved properly.
<b>Medium</b>	Moderate contravention of policies, procedures or laws, poor internal controls, significant opportunity to improve effectiveness and efficiency, significant risk identified. Corrective action is required. Need to be resolved as soon as resources can be made available, but within six months.
<b>Low</b>	Minor contravention of policies and procedures, weak internal controls, opportunity to improve effectiveness and efficiency, moderate risk identified. Corrective action is required. Need to be resolved within twelve months.

## 4. INHERENT LIMITATIONS

Due to the inherent limitations in any internal control structure, it is possible errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted our review was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The review conclusion and any opinion expressed in this report have been formed on the above basis.

## 5. DETAILED AUDIT FINDINGS

### 5.1 Segregation of Duties

#### Audit Finding

Approvals for purchase order and receipting of goods and services can be performed by the same officer, with invoices automatically approved by Finance if there is a three way match of purchase order, goods/services receipting and invoice.

This results in the same officer in effect being able to approve the purchase order, receipt the goods and services and approve the invoice. It was noted that the purchase requisition is raised by a different officer.

From our testing it was noted that for higher value transactions the purchase order was approved by the CEO, who was not involved with the procurement evaluation process, so in practice the risk appears to be more in relation up to a procurement value of \$50,000, though theoretically could apply more widely.

#### Risk Rating

Paxon has determined this finding to be of **High Risk**

#### Implication

Insufficient independent oversight of purchase increasing the risk of inappropriate transactions occurring individually or in aggregate.

#### Recommendation

The Town should consider implementing system enforced segregation of duties or independent oversight of procurement and purchasing processes.

#### Management Comment

Our system (Authority) prevents a requisition officer to approve own requisition. The approval process is position hierarchy based. Once the requisition is approved, then it will become a purchase order. Goods receipting is a confirmation of invoice value and supplied goods/services according to the issued purchase order. There will be an occasion that the original requisition officer is absence or resigned when the invoice requires goods receipting process. On such occasion, the manager who approved the requisition or the alternate officer will process goods receipting.

Management do not believe that the segregating goods/services receipting from raising of purchase order is a method of mitigating risks. Goods receipting should be performed by the officers who have the knowledge of goods or services purchased. We believe the risk exists where the goods receipting is conducted by officers who does not have the knowledge of purchased goods or services.

Management do not agree that this is a high risk finding. It should be rated as low risk.

#### Action Owner

Management will consider to creating a report which identifies anomalies in goods receipting.

#### Target Completion Date

30 June 2024

## 5.2 Use of Delegation

### Audit Finding

Through the performance of testing we noted two instances where the authoriser does not appear to have the required delegated authority:

- Paxon sighted that the extension letter agreement is signed by the senior procurement officer.  
Within the Delegations and Sub-Delegations Register, 1.1.16 Tenders for Goods and Services - The Chief Executive Officer has the authority to exercise an extension option that was included in the original tender specification and contract in accordance with regulation 11(2)(j). Paxon notes that under the list of sub-delegates, the senior procurement officer was not listed and hence does not have the power to exercise the authority to extend the contract and send the extension agreement.
- For procurement sample relating to requisition number 53327, the purchase order approver is the Street Operations Engineer. The Street Operations Engineer has delegated authority to approve purchase orders up to \$50,000 limit. The purchase order amount for this sample is \$60,037.87 excluding GST.

### Risk Rating

Paxon has determined this finding to be of **High Risk**

### Implication

The Town may be committed to contracts or terms it does not wish to undertake or by people with insufficient delegation.

### Recommendation

- 5.2.1 Extension letters should be signed by an officer with the appropriate delegated authority or clear evidence of the desire to extend should be obtained from a delegated authority.
- 5.2.2 The transaction should be investigated to determine how this was approved e.g. acting in a higher role or other change to delegated limit.

### Management Comment

5.2.1 – the extension was approved on the memo by CEO via email. We agree that the extension offer letter should have been signed by CEO.

5.2.2 – Our system (Authority) prevents an approving officer to approve more than the threshold amount assigned. We will investigate further if there is any malfunction occurred on this requisition.

### Action Owner

Procurement Officers

Coordinator Business Systems Support and Improvement

### Target Completion Date

31/12/2023

### 5.3 Finance Delegations

#### Audit Finding

A comparison was made of the user access and limits for authorising purchase requisitions that are set up within the finance system to the approval thresholds and requirements within the Procurement Management Practice. Only one user was noted as having an approval limit that did not appear to meet the management practice, with the Digital Literacy Officer having a delegation of \$50,000.

It was also noted that there is also no evidence of regular review of the limits within the finance system by management to assess if they are appropriate.

#### Risk Rating

Paxon has determined this finding to be of **Medium Risk**.

#### Implication

Delegations may not be appropriate for roles exposing the Town to increased risk of inappropriate transactions.

#### Recommendation

A process should be put in place to ensure that the delegations limits as set up within the finance system should be regularly reviewed by management.

#### Management Comment

Business Systems team manages the system's hierarchy set up. We will discuss and establish the frequency of review of hierarchy set up.

#### Action Owner

Coordinator Business Systems Support and Improvement

Manager Strategic Accounting

#### Target Completion Date

31/03/2024

## 5.4 Conflicts of interest declarations

### Audit Finding

Non-voting evaluation panel members such as the procurement officers do not sign the conflict-of-interest forms. Although these personnel do not vote they can still influence procurement processes.

### Risk Rating

Paxon has determined this finding to be of **Medium Risk**.

### Implication

Non-voting members such as procurement officers may influence the voting evaluation panel members, despite their role being to facilitate for the tender and quotation processes.

### Recommendation

All members of the evaluation panel should be required to sign the conflict of interest despite being a non-voting or voting member.

### Management Comment

We will discuss the effectiveness of suggested practice. If finds effective and will mitigate a risk, we will introduce the practice.

### Action Owner

Procurement Officers

### Target Completion Date

31/12/2023

## 5.5 Unverified supplier credentials

### Audit Finding

For procurement processes above \$250,000 a request for tender process is required to be conducted. This includes third-party supplier verification through Eftsure through the production of a report that verifies whether the supplier's ABN is valid and Director's information are appropriate.

Stiles Electrical & Communications Services Pty Ltd was not Eftsure verified.

### Risk Rating

Paxon has determined this finding to be of **Medium Risk**.

### Implication

An unverified supplier poses a risk for an ABN that is not valid or other information provided may not be accurate.

### Recommendation

A process should be put in place to ensure suppliers are reviewed through Eftsure. It was noted there is no checklist in place to ensure all steps of a procurement process are completed, so this could be put in place and the Eftsure requirement included.

### Management Comment

We will ensure that the Eftsure verification is conducted for all our suppliers.

The above supplier has been verified by Eftsure on 11 May 2023.

### Action Owner

New supplier requesting officers

### Target Completion Date

Ongoing

**5.6 Invoice date precedes purchase order date**

**Audit Finding**

For three out of ten procurement samples, the invoice date precedes the purchase order date. The three samples relate to:

1. Purchase order number 53327 dated 27 June 2022 with corresponding invoice number 17120 dated 24 June 2022.
2. Purchase order number 54836 dated 30 September 2022 with corresponding invoice number 2504 dated 29 September 2022.
3. Purchase order number 53568 dated 8<sup>th</sup> July 2022 with corresponding invoice number 42630 dated 7<sup>th</sup> June 2022.

Finance has a process in place to monitor and follow-up occurrences of invoice received before the purchase order is raised, which has resulted in a large reduction in numbers as shown below, but may require further action to eradicate:

Value of Invoices	
Quarter to June 2022	\$2,160,393.93
Quarter to September 2022	\$2,382,162.78
Quarter to December 2022	\$1,094,943.70
Quarter to March 2023	\$222,111.97

**Risk Rating**

Paxon has determined this finding to be of **Medium Risk**

**Implication**

Non-compliance with procurement processes resulting in unauthorised or inappropriate purchases.

**Recommendation**

The implemented control should continue until numbers are further reduced. This could include escalation and reporting to Executive for on-going areas or individuals where practice does not improve.

**Management Comment**

We are aware of this issue on this practice. We will ensure to educate the organisation on seriousness on adhering the Purchasing Policy and Purchasing Management Practice.

**Action Owner**

Procurement Officers

Manager Strategic Accounting

**Target Completion Date**

30/06/2024

## 5.7 Incomplete records

### Audit Finding

There is an incompleteness issue relating to the contract and tender documents contained within the records management system.

Paxon was advised that Content Manager 9 is the key records management system that Town of Victoria Park uses. Conflict of interest forms, evaluation reports/recommendation reports, quotation submissions, letter of awards, RFQs/RFTs are kept within this system.

For one of our sample relating to RFQ/21/31 Change Room Showers Upgrade at Harold Rossiter: none of the contract documents were recorded within the content manager system.

Town of Victoria Park's procurement team also advises that there is currently no checklist performed when it comes to ensuring whether all documents of an RFQ or RFT is recorded on the records management system.

It was also noted that no quotations were provided to Paxon for RFQ TVP/21/03 Lead Architect Consultant for Redevelopment of Lathlain Precinct Zone 1 to Hames Sharley WA Pty Ltd for \$553,230. A signed evaluation which included summaries of 8 proposals was signed by 5 officers was noted, so we believe the proposals were received, but could not be evidenced to us.

### Risk Rating

Paxon has determined this finding to be of **Low Risk**.

### Implication

There is no formal record to evidence procurement processes.

### Recommendation

- 5.7.1 Development a checklist for procurement processes including records management related documents that are required to be filed within Content Manager 9
- 5.7.2 Records management requirements should be included within procurement training.

### Management Comment

Accept the recommendations.

Overall records management practice requires reviews and updates. We will ensure all procurement related records are saved within the CM9.

### Action Owner

Procurement Officers

### Target Completion Date

30/06/2024

## 5.8 Tender Register

### Audit Finding

The tender register does not include copy of the notice of invitation to tender in accordance with section 17 of the Local Government (Functions & General) Regulations 1996.

### Risk Rating

Paxon has determined this finding to be of **Low Risk**.

### Implication

Non-compliance with s.17 of the Local Government Regulations.

### Recommendation

The tender register should include a copy or a link to the notice of invitation to tender

### Management Comment

We will ensure to include the copy of notice of invitation within the tender register.

### Action Owner

Procurement Officers

### Target Completion Date

31/12/2023

## 5.9 Incomplete contracts register

### Audit Finding

A comparison check was performed between the 2022 purchase order listing and the contracts register and the Department of Fire and Emergency, Mindarie Regional Council, Telstra Corporation Ltd are part of the top 10 suppliers with the highest combined purchase order values but are not included within the contracts register.

### Risk Rating

Paxon has determined this finding to be of **Low Risk**.

### Implication

There is a completeness risk around contracts not being formed or included for these suppliers.

### Recommendation

Implement a control to cross-check contracts recorded within Content Manager 9 and expenditure with the contracts register to identify contracts that should be put in place or recorded.

### Management Comment

Accept the recommendation to introduce a cross-check of contracts.

We will introduce a top 10 suppliers review on annual basis.

### Action Owner

Procurement Officer

### Target Completion Date

30/06/2024

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