

# City of Joondalup

## 2014 Review of Financial Management Systems and Procedures

December 2014

DRAFT

Mr Peter McGuckin  
Internal Auditor  
City of Joondalup  
PO Box 21  
Joondalup WA 6919

19 December 2014

Dear Peter

**Re: 2014 Review of Financial Management Systems and Procedures**

We have completed the review of the City of Joondalup's financial management systems and procedures in accordance with the requirement of Regulation 5(2)(c) of the Local Government Act (Financial Management) 1996 and are pleased to submit our draft report to you.

If you have any questions or wish to discuss anything raised in the report, please do not hesitate to call me on 9365 7024 or Andrew Baldwin on 9365 7236.

Yours sincerely

**Richard Thomas**  
Partner  
Deloitte Touche Tohmatsu

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# 1 Executive Summary

## 1.1 Introduction

In accordance with our Terms of Reference accepted by the City of Joondalup (**the City**) on 31 October 2014, Deloitte Touche Tohmatsu (**Deloitte**) was engaged to assess the appropriateness and effectiveness of the City's financial management systems and procedures.

Regulation 5(2)(c) of the Local Government (Financial Management) Regulations requires the CEO of the City to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every four financial years) and report to the local government the results of those reviews.

The previous assessment of the City's Financial Management Systems and procedures was performed in 2010 and outlined in a report presented to the City in September 2010.

This report relates to the assessment conducted in November 2014.

## 1.2 Scope

We performed a high level, risk-based assessment to consider the appropriateness and effectiveness of the City's financial management systems. As the financial management systems referred to in Regulation 5(2)(c) are not specifically defined, we agreed with the City that the following processes and functions operating within the City would be the subject of this assignment:

- Revenue (rates, service charges and fees and charges only)
- Expenditure (payments and purchasing only)
- Cash handling process (cash custody and security) at the main office and Craigie Leisure Centre
- Information maintenance and security for financial records in FinanceOne, Proclaim and Aurion
- Payroll preparation and file maintenance
- Fixed assets
- Stock control (Inventory)
- Annual budgeting process for FY13/14
- Annual financial reporting process for FY13/14.

Note that we:

- Focussed on processes and control current at the time of our review and primarily selected sample transactions from the 2013/14 financial year
- Did not consider whether the delegation of financial authority has been appropriately determined when performing any transactional testing surrounding approvals and payments.

## 1.3 Key results

In relation to the nine key financial management functions included in the scope of the assignment, the City appears to have consistently maintained relevant protocols, policies, processes and procedures, which are fundamentally the same as those last assessed in 2010, except for the further enhancements noted at Section 3 of this report.

We also observed that the City has:

1. Assigned roles and responsibilities to specific staff members to facilitate the effective operation of those financial management functions
2. Continued to maintain an Internal Audit function that, in accordance with its audit plan, conducts reviews of targeted financial management functions<sup>1</sup>
3. Completed or closed out all but three action items (relating to the Payroll function) raised in the 2010 review report. The three action items do not represent a significant weakness in the City's control environment, however we recommend they be resolved within the current financial year. Refer to Section 3 of this report for further detail
4. The following opportunities for further strengthening its internal control environment:
  - a. Further clarification of procedures for reviewing the use of corporate credit cards
  - b. Consideration of potential enhancements to the infringement receipting process, relating to protection of privacy and efficiency of over the counter processing
  - c. Further tightening management/review of system user access, particularly in relation to access to the supplier master file, use of alias names and timeliness of access being revoked upon an employee's cessation.

Each item is further detailed in Section 3 "Observations and improvement opportunities" of this report. We have not assigned a risk rating or level of priority to these improvement opportunities, however based on the results of our assessment and limited testing, we have not identified any significant control weaknesses.

## 1.4 Acknowledgement

We sincerely thank each of the City's personnel involved in this year's review for their input and timely assistance to our team.

<sup>1</sup> The purpose of such reviews are to "identify any weaknesses and risks and to make recommendations for improvements. Refer to examples of internal audit activity listed at Section 4 of this report

## 2 Summary of work performed

### A. Refined focus of assignment

We confirmed the functions that have been subject to internal audit or other assurance processes over the past four years, then considered the scope and outcome of that audit/assurance activity to determine:

- Whether the work performed constitutes a review of the financial management systems and procedures, meeting the requirements of Regulation 5(2)(c)
- Whether the relevant systems and processes have not significantly changed since the audit/assurance activity was performed
- The extent of reliance that could be placed on that audit/assurance activity in order to target our focus on those systems and procedures, which require further consideration to meet the requirements of Regulation 5(2)(c).

### B. Conduct assessment of controls

We performed a high level, risk based assessment to consider the appropriateness and effectiveness of the City's financial management functions by undertaking the following work:

- Held high level discussions with key staff to determine the controls in place for each process covered in the scope of this review and refined at step A. above. A complete list of staff who participated in this review is provided at Section 4 of this report
- Performed high level walk through testing of processes to determine adherence to existing protocols, observed controls identified through discussions with staff and obtained evidence where applicable
- Considered the access security arrangements for the City's computer network and financial management systems
- Documented and considered the adequacy of controls and processes established by the City for each financial management function and obtained evidence where applicable
- Performed limited testing for the following areas to determine the effectiveness of controls in place:
  - Purchasing (including credit cards)
  - Payroll
  - Information Management
- Obtained and analysed payroll data at a high level to consider the data quality
- Established the status of previous relevant audit recommendations
- Discussed the results of our work with relevant staff/managers, including any observations and recommendations for improvement.

### 3 Observations and improvement opportunities

#### Summary of key changes since 2010<sup>2</sup>

#### Observations and improvement opportunities

##### Revenue (rates, service charges and fees and charges only)

- There have been no significant changes to the City's Revenue processes since the 2010 Financial Management Systems review.
- We note that two employees are currently learning the role of the Team Leader Rating Services (TLRS) for the month end process for reporting revenue. This initiative is designed to ensure the key reconciliations can be adequately performed when the TLRS is absent.
- The City has given initial consideration to the viability of a barcode system for infringement notices, to improve the efficiency of the payment process and to minimise the risk of data entry error.

##### Observation 1/2014

The City has signed a confidentiality agreement with the Department of Transport in order to obtain names and addresses of vehicle owners, for issuing parking infringement notices. Currently, Customer Service Officers (CSO) have access to those names and addresses, which presents a higher risk to the City of the confidentiality agreement being breached. We were informed of an occasion where a CSO greeted the payer of the infringement by name, which although being a positive example of customer service, may genuinely breach the confidentiality agreement.

##### Recommendation 1/2014

1. Clarify whether the City's approach for CSOs to have access to names and addresses of vehicle owners adequately addresses the confidentiality agreement with the Department of Transport.
2. Where required, modify access to names and addresses and/or ensure staff with access are sufficiently aware of the confidentiality agreement.

##### Action Plan 1/2014

1. The City has clarified with the Department of Transport that the confidentiality agreement covers the individuals within the organisation to whom the Department of Transport may directly provide the information. It is then up to the organisation to manage the information internally, as it requires, in order to undertake its responsibilities in regards to infringements. The City is therefore complying with the agreement.
2. Access modifications are not required. CSOs have been advised that they cannot assume that the payee is the person whose details are shown on the data base and should not use this to greet customers. This also relates to rates, general debtors, etc.

**Responsible officer:** N/A

**Accountable officer:** N/A

**Target date:** Completed

<sup>2</sup> Key changes (which in all cases are improvements), based on the assessments made by the 2010 Financial Management Systems review

Summary of key changes since 2010<sup>2</sup>

## Observations and improvement opportunities

**Expenditure (payments and purchasing only)**

- The City has undertaken an extensive review of instances where the supplier invoice is dated before the City's purchase order is approved (i.e. in contravention with the City's requirements). The City has implemented a weekly non-compliance report, which is presented to all business units and the initiator of the purchase order is asked to explain in person at a task force meeting.
- Purchase orders are now allocated unique numbers i.e. different to the associated purchase requisition numbers.
- The City has initiated a program for educating suppliers on the process of invoicing the City (e.g. invoices are to include the PO number and must not be raised until the purchase order is received).

**Observation 2/2014**

The City uses four credit cards, which are subject to relatively strong controls, including requirements for all transactions to be supported and monthly statements to be subject to verification by a designated manager.

In our limited testing, we observed one instance where an accommodation expense was not supported by an approved authorisation form prior to the expense being incurred. Although other supporting documentation (including details of an outlook diary entry as evidence of travel) was provided and the credit card statement was signed by the designated manager as "Transactions Examined and Approved", this transaction was not technically in accordance with the City's travel and accommodation protocol. Despite being a relatively minor issue, the City is exposed to accusations of non-compliance with its expenditure protocols.

**Recommendation 2/2014**

1. Reiterate to employees the importance of ensuring the appropriate authorisation forms are signed by the appropriate authorised officer prior to the expenses being incurred.
2. Consider modifying the sign-off statement to be more explicit, such as "Confirmed to be in accordance with the City's "Use of Corporate Credit Cards" and "Travel, Accommodation and Vehicle Hire" protocols"

**Action Plan 2/2014**

This observation relates to the Chief Executive Officer who is subject to the Travel, Accommodation and Vehicle Hire Protocol; however the Chief Executive Officer does have specific entitlements under the terms of his contract which includes participation in continuing professional development. The accommodation in question related to a meeting of the Local Government Chief Officers' Group (LGCOG), of which the Chief Executive Officer is a member and can attend at his discretion without seeking approval. Attendance at LGCOG meetings is professional development.

At its meeting on 11 October 2005 (CJ210-10/05 refers), Council resolved in part that a quarterly report on the corporate credit card usage of the Chief Executive Officer be prepared and presented to the Audit Committee. Given this control, the City does not consider it necessary to amend the Protocol or the sign-off statement to accommodate other conditions the Chief Executive Officer is subject to.

**Responsible officer:** N/A

**Target date:** N/A

**Accountable officer:** N/A



Summary of key changes since 2010<sup>2</sup>

## Observations and improvement opportunities

**Cash handling process (cash custody and security)**

- A PIN is now used to open the safe, which is located in a secure room and only accessible by CSOs. The PIN is changed at least once every 12 months or when a CSO resigns.
- A Daily Safe Register has been developed and Beginning/Ending of Shift procedures have been updated. These changes have strengthened the requirement for two staff members to be present during safe opening/closing, dual sign off for all cash collections and supervisory review.
- West-sure Group Pty Ltd has been contracted to provide a cash collection service, where armed guards now deliver the secure cash bags to the bank without opening the bag.

**Information management and security for financial records in FinanceOne, Proclaim and Aurion**

- The server room is now secured with swipe card access provided to the appropriate IT personnel.
- A Business Continuity Plan has been implemented which includes a section on IT. A test of the plan has been performed.

**Observation 3/2014**

1. We observed from a user maintenance report that some usernames were Alias names, which do not identify a person in the audit trail. At the time of our review, such usernames had been de-activated
2. From discussions with staff it was brought to our attention that employees outside of the purchasing function had access to make changes to the Supplier master file.
3. From a comparison of employee termination dates and changes to user access, we observed a small number of accounts that were deactivated more than one month after termination.

**Recommendation 3/2014**

Consider implementing the following additional controls:

1. Restrict to one username per person and restrict the user name to allow users of the report to identify the actual user
2. Perform a review of users who are able to add and update the Supplier master file and ensure access is restricted to Purchasing Officers only
3. IT diarise a task to delete user access at the end of the user's final shift.

**Action Plan 3/2014**

1. As noted in the Observation, the use of Alias names has already been discontinued since the new process for managing user access was introduced.
2. The ability to access the 'Supplier Master File' by employees outside of the purchasing function was an unintended consequence of a one-off software installation by the system vendor. All inadvertently acquired access to financial ledgers has been removed and audit reports show access only by authorised officers.
3. Actions are already in place. As well as terminated employee reports there is also now an email notification generated at the same time as the Human Resources notification to Information Technology to remove user network access on termination. The examples identified in the Observations pre-date the change to the new process for managing user access. It should be noted that the actions to remove user access at Technology One account level are essentially a redundant control. It is accepted that the removal should be performed promptly, however it does not significantly add to system security because once a user's network account has been removed or deactivated the associated Technology One account is unusable.

**Responsible officer:** Manager Information Technology

**Target date:** Completed

**Accountable officer:** Manager Information Technology

Summary of key changes since 2010<sup>2</sup>

## Observations and improvement opportunities

## Payroll preparation and file maintenance

- There have been no significant changes to the City's Payroll processes since the 2010 Financial Management Systems review.
- At present, manual forms are submitted to Payroll for employees who do not have access to Aurion. The City is seeking to implement an online form for permanent staff for hours worked and to submit any variations.
- Employees with access to Aurion can now update their own personal details (e.g. bank details and leave).

**Observation 4/2014**

The City had not fully closed out the following items listed in the 2010 Financial Management Systems review.

1. *We observed that HR are not utilising all exception reports which are available in Aurion*
2. *Changes made to the employee master file (e.g. pay rates and deductions) are not subjected to review by senior personnel*
3. *The EFT bank files are able to be edited after the pay run.*

Although the City has not suffered a known breakdown in its payroll activities, these items highlight some genuine exposures and opportunities for implementing good practice controls.

We understand that the City is soon to trial and implement a new Westpac banking system where payment files are transmitted directly to the bank, eliminating the need for files to be retained.

**Recommendation 4/2014**

Reconsider and either complete or otherwise close-out each recommendation and action plan raised by the 2010 review.

**Action Plan 4/2014**

1. Standard exception reports that are available in Aurion are being utilised, with the exception of those below that are not ticked. A new exception report identifying pay rate changes has been under development by Information Technology and will soon be in production.

The reason the reports are not used is because every employee would be listed every fortnight on the exception report with what tax indicator they had elected and there would be no value in this report. Checks are made when an employee commences against the information they have recorded on the Australian Taxation Office (Tax Declaration) form. When an employee no longer has a HELP debt, Payroll Services receive a Tax Withholding Variation form which becomes the checking document.

Details of Test	Do Test	Specific Amount
Has no or reserved Tax File Number	<input checked="" type="checkbox"/>	
Has a Tax Variation in force this Period	<input checked="" type="checkbox"/>	
Has pegged or varied tax this Period	<input checked="" type="checkbox"/>	
Other than General Exemption	<input type="checkbox"/>	
Has HELP Debt this Period	<input type="checkbox"/>	
Has SFSS Debt this Period	<input type="checkbox"/>	
Leave Accrual Control is unconfirmed this Period	<input checked="" type="checkbox"/>	

Summary of key changes since 2010<sup>2</sup>

## Observations and improvement opportunities

2. The Manager Human Resource Services reviews and signs-off the fortnightly payroll output, which is then reviewed and signed-off again by one of the City's two senior accountants (in their absence the Manager Financial Services reviews and signs-off the payroll output). Prior to this, the payroll output is created and reviewed by two officers separately within Human Resources.
3. Only current financial year EFT reports are kept, with all other reports deleted. The trial and implementation of a new Westpac banking system will address this observation, although there is a requirement for the ability for some edit function capability to deal with issues such as a bank reject.

**Responsible officer:** HR Payroll and Systems Administrators

**Target date:** 31 December 2015

**Accountable officer:** Manager Human Resources / Manager Information Technology

#### Fixed assets

- Budget information for Infrastructure assets are now inputted in the Property Planning Infrastructure Budget System and access is restricted based on staff position.
- A Project and Tracking System is now in place to track actual spending on each project.
- At present, the asset value and depreciation rate for Buildings is administered by Finance. The Infrastructure team is currently in discussion with Finance about taking responsibility for this area.

#### Stock control (Inventory)

- Inventory is stored securely at the Works Operation Centre.
- Since the 2010 Financial Management Systems review, the City has implemented formal procedures for stock return, obsolete stock and stock adjustments and made those procedures available on the intranet.

#### Annual budgeting process for FY13/14

- There have been no significant changes to the City's Budgeting process since the 2010 Financial Management Systems review.
- We observed that annual budget information is now prepared in greater detail to accommodate the increased scrutiny of the City's financial activity.
- A debrief is now held at the end of the budget process to determine what was done efficiently and any areas for improvement.

#### Annual financial reporting process for FY13/14

- There have been no significant changes to the City's Annual financial reporting process since the 2010 Financial Management Systems review.

## 4 Key references

### Internal audit reports considered

- Follow up audit on Non-compliance in City procurement practices (February 2014)
- Procurement audit (August 2013)
- Purchasing review (February 2013)
- Review of collection of income from parking ticket machines (November 2012).

### Key Staff involved

- Senior Financial Accountant
- Senior Management Accountant
- Manager Information Management
- Stores and Contracts Controller
- Coordinator Customer Service
- Senior Leisure Centre Officer
- Coordinator Contract Administration and Purchasing Services
- Team Leader Rating Services
- Payroll & HR System Administrator
- Coordinator Parking Services
- Coordinator Strategic Infrastructure Asset Management
- Coordinator Fleet Management
- Contracts Officer.