# PARLIAMENTARY STANDING COMMITTEE OF

# PUBLIC ACCOUNTS

## REVIEW OF AUDITOR-GENERAL'S REPORT

*NO. 1 OF 2013–14: FRAUD CONTROL IN LOCAL GOVERNMENT*

## MEMBERS OF THE COMMITTEE OF THE 48TH PARLIAMENT

| LEGISLATIVE COUNCIL | HOUSE OF ASSEMBLY |
| --- | --- |
| Hon Ivan Dean MLC (Chair) | Mr Scott Bacon MP |
| Hon Ruth Forrest MLC | Ms Sarah Courtney MP (Deputy Chair) |
| Hon Michael Gaffney MLC | Mrs Joan Rylah MP |

## MEMBERS OF THE COMMITTEE OF THE 49TH PARLIAMENT

| LEGISLATIVE COUNCIL | HOUSE OF ASSEMBLY |
| --- | --- |
| Hon Ivan Dean MLC (Chair) | Mr David O'Byrne MP (from 24 September 2019) |
| Hon Ruth Forrest MLC (Deputy Chair) | Mrs Joan Rylah MP (from 19 March 2019) |
| Hon Josh Willie MLC (from 28 May 2019) | Mr John Tucker MP (from 19 March 2019) |
| Hon Michael Gaffney MLC (to 23 May2019) | Mr Adam Brooks MP (to 11 February 2019) |
| | Mr Rene Hidding MP (to 25 February 2019) |
| | Mr Scott Bacon (to 22 August 2019) |

**TABLE OF CONTENTS**

# ABBREVIATIONS LIST

| | |
|---|---|
| BCC | Burnie City Council |
| CCC | Clarence City Council |
| GTC | George Town Council |
| HCC | Hobart City Council |
| PPE | Property, plant and equipment |
| TAO | Tasmanian Audit Office |
| TC | Tasman Council |
| WCC | West Coast Council |

# CHARTER OF THE COMMITTEE

The Public Accounts Committee (the Committee) is a Joint Standing Committee of the Tasmanian Parliament constituted under the *Public Accounts Committee Act 1970*.

The Committee comprises six Members of Parliament, three Members drawn from the Legislative Council and three Members from the House of Assembly.

Under section 6 of the *Public Accounts Committee Act 1970* the Committee:

- must inquire into, consider and report to the Parliament on any matter referred to the Committee by either House relating to the management, administration or use of public sector finances; or the accounts of any public authority or other organisation controlled by the State or in which the State has an interest; and

- may inquire into, consider and report to the Parliament on any matter arising in connection with public sector finances that the Committee considers appropriate; and any matter referred to the Committee by the Auditor-General.

# RECOMMENDATIONS

Based upon its findings from the follow-up review of the Auditor-General's Report, the Committee recommends:

1.  All councils work collaboratively to develop sound fraud control practices.

2.  All councils remain vigilant with respect to the risk of fraud.

3.  The Integrity Commission be engaged by all councils to conduct regular information sessions in relation to fraud control.

Hon Ivan Dean
Chair
18 October 2019

# 1    INTRODUCTION AND CONDUCT OF REVIEW

1.1    The Committee resolved of its own motion to examine Auditor-General's Report No 1 of 2013-14: Fraud Control in Local Government.

## TERM OF REFERENCE

1.2    The Committee's term of reference is to follow-up on the implementation of the recommendations of the Report and report to both Houses of Parliament.

## CONDUCT OF THE REVIEW

1.3    On 18 March 2015 the Committee received a briefing from the Auditor-General on the Report.

1.4    The Committee resolved to undertake a follow-up examination of the Report on 19 August 2015.

1.5    The Committee developed and distributed questionnaires to the relevant Councils on 11 February 2016 and the last questionnaire response was received on 10 March 2016.

1.6    The purpose of the questionnaire was to determine the action taken by the Councils to implement the Auditor-General's recommendations contained within the Report.

1.7    The business of this Inquiry was postponed in March 2016 due to the commencement of the Committee's Inquiry into Energy Entities, which reported to Parliament on 15 August 2017.

1.8    Parliament was prorogued on 28 January 2018 before the Committee had reported on its review of these Auditor-General's Reports.

1.9    The Public Accounts Committee of the 49th Parliament resolved on 20 June 2018 to recommence and finalise this review.

1.10   The Committee re-distributed questionnaires on 20 September 2018 to entities to gather more timely information.

1.11   Parliament was prorogued on 27 February 2019.

1.12   The second session of the Parliament commenced 19 March 2019 and Committee Members of the House of Assembly and Legislative Council were appointed.

# 2   REPORT NO. 1 OF 2013-14: *FRAUD CONTROL IN LOCAL GOVERNMENT*

## AUDITOR-GENERAL'S RECOMMENDATION

2.1    The Auditor-General's Report made the recommendation each council implement the internal controls and elements of anti-fraud culture that the Auditor-General identified as missing or deficient.

2.2    The Councils audited by the Auditor-General included Burnie City Council, Clarence City Council, George Town Council, Hobart City Council, Tasman Council and West Coast Council.

2.3    The following section for each Council provides the response of the Council to the elements of anti-fraud culture and internal control identified as missing or deficient by the Auditor-General.

# COUNCIL RESPONSES TO PUBLIC ACCOUNTS COMMITTEE QUESTIONNAIRE

## BURNIE CITY COUNCIL

2.4    Elements of a high-level anti-fraud framework:

**Table 1.1: BCC — elements of a high-level anti-fraud framework**

| Audit test | Rating |
|---|---|
| High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated) | P[1] |
| Fraud Control Plan (reviewed within the last two years) | ✘ |
| Internal controls and delegations (reviewed within the last two years) | P[2] |
| Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment | P[3] |
| Fraud register | ✘ |
| Losses due to fraud are costed to the responsible business unit? | ✓ |
| Individual manager position statements that encompass fraud risk management responsibilities. | ✘ |
| Fraud Control Officer (adequately resourced) and defined roles and accountabilities | ✘ |

[1] The Public Interest Disclosure Policy deals with the investigation of detected or suspected fraud, but it needs to be clearer in terms of what is expected from the employee.

[2] Internal controls are documented but not recently updated.

[3] There was a Code of Conduct but it did not mention fraud.

2.5    The Council provided the following response:

*Council adopted a new Fraud Control Policy in December 2015.  The purpose of this policy is to demonstrate Council's commitment to the prevention, detection and investigation of any fraudulent activity. The policy provides a framework for both the protection of public money and assets and protection of the integrity, security*

*and reputation of the Council, its management and employees and the services it provides to the community.*

*The policy requires a Fraud Control Plan to be maintained, a Fraud Register to be maintained, and the requirement for a Fraud Control Officer. Council has implemented the policy fully.*

*The Employee Code of Conduct has been updated and now specifically includes a direct statement in relation to Fraud and references the Fraud Control Policy.*

*Individual manager position statements do not include specific Fraud related responsibilities but they do include responsibility for managing risks. The Fraud Control Policy clearly defines the roles of managers and supervisors.*

*Managers and Supervisors:*

*'All managers and supervisors have a duty to familiarise themselves with the types of improprieties that might be expected to occur within their areas of responsibility and be alert for any indications or irregularity' Where* [sic] *weaknesses in controls are identified, the relevant Director should be notified as soon as practical."*

2.6    The Council provided the following update in 2018:

*Council adopted a Fraud Control Policy in December 2015. The policy requires a Fraud Control Plan to be maintained, a Fraud register to be maintained and the requirement for a Fraud Control Officer. Further to the last update in 2016, the Fraud Control Plan was reviewed and approved in July 2017 and the Fraud Register was reviewed in August 2017. The appointment of a Fraud Control Officer is reviewed regularly to ensure currency and accuracy. This is monitored and confirmed annually in the Compliance Register. A temporary appointment was made on 4 October 2018 to cover the absence of the regular appointed officer which further demonstrates the appointment being reviewed to meet changing circumstances.*

FINDINGS

1.    The Council stated it has addressed the areas of partial and non-compliance regarding elements of a high-level anti-fraud framework.

2. The Fraud Control Policy and Fraud Control Plan was provided for the purposes of the Committee's review.

2.7 Communication of the anti-fraud framework:

**Table 1.2: BCC — how is the framework communicated?**

| Audit test | Rating |
|---|---|
| Regular training provided in respect of fraud awareness? | ✗ |
| Code of Conduct communicated at induction? | ✓ |
| Statement of compliance with Code of Conduct and fraud policies signed annually? | P[1] |
| Updates to fraud-related documents communicated effectively (fraud survey) | ✓ |
| Fraud control incorporated into performance management system | ✗ |
| Internal controls communicated effectively? | P[2] |

[1] Only some employees re-sign the Code of Conduct each year.

[2] Processes are documented and understood by staff but are not updated regularly. Also, not all staff were aware of where to find the documentation.

2.8 The Council provided the following response:

*How is the framework communicated?*

*The framework documents are available on Council's new staff intranet (Biki).*

*Information sessions have been held with the Management Executive in relation to risk management and fraud related risks. More targeted training is planned and will occur on an ongoing basis for both the management team and staff.*

2.9 The Council provided the following update in 2018:

*Framework documents continue to be available to staff on Council's intranet. Training has been provided to Council's middle management team in October 2016 and continues to be highlighted using such tools as short clips relating to code of conduct responsibilities created by the Integrity Commission. Information sessions have also been held with staff in whole of Council staff meetings including*

*information on receiving gifts and benefits that may be offered to employees and the procedures in place to address such a circumstance.*

*At the commencement of employment, new staff are taken through an induction process with components covering fraud and will sign a document on Code of Conduct.*

2.10    The Committee wrote to the Council seeking confirmation of whether changes have been introduced by Council to:

- Require all staff to re-sign the code of conduct and fraud policies annually; and

- Whether fraud control has been incorporated into the performance management system.

2.11    The Council responded:

*Council's Fraud Control Policy is supported by a Fraud Control Plan.  This Plan includes the Fraud Prevention Framework with raising awareness and training procedures documented.  The Plan states:*

*Raising Awareness*

*Fraud Management Training will be provided to all managers to ensure that they are aware of their responsibility as a manager, with regards to fraud control.*

*Fraud Awareness Training is Council's method for ensuring that all employees, contractors and volunteers are aware of their responsibilities for fraud control and of the expectations for ethical behaviour in the workplace.*

*The Executive Manager Corporate Finance is responsible for the development and delivery of fraud training, which will be included in the induction program for all new staff, and delivered across the organisation as refresher training, every two years.*

*This framework sets expectations that all employees have received awareness training and all new employees are provided with training on their responsibilities with regard to both the Code of Conduct and Fraud Policy.*

*Council will raise awareness through managers, its intranet and staff meetings from time to time, however doesn't see any benefit in all staff re-signing the Statement of Compliance on an annual basis.*

*Council has an active Fraud Control System operating and any issues associated with employees breaching their responsibilities resulting in fraud or potential fraud is dealt with by the Manager People and Safety in accordance with standard human resource practices.*

FINDING

3.    The Council stated it does not require all staff to re-sign the code of conduct but provides awareness through meetings and the intranet.

4.    The Council stated that fraud control breaches are dealt with by the Manager People and Safety.

5.    The Council stated it provides regular training in respect of fraud awareness and effective communication of internal controls.

2.12    Encouragement of reporting of fraud:

**Table 1.3: BCC — is reporting of fraud encouraged?**

| Audit test | Rating |
|---|:---:|
| Documented procedure for reporting suspicions? | ✘ |
| Procedures for dealing with suspected fraud? | ✓ |
| Fraud Control Officer or alternate line of reporting? | ✘ |
| Employees would report a suspected fraud? (from staff survey) | ✓ |
| Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey) | ✓ |

2.13    The Council provided the following response:

*The Fraud Control policy outlines the reporting procedures for suspected fraud. Council now has a delegated Fraud Control Officer.*

2.14    The Council provided the following update in 2018:

*The Fraud Control Policy implemented in December 2015 outlines the reporting procedures for suspected fraud and a Fraud Control Officer has been appointed. Council aims to have a culture of encouraging staff to report fraud or to speak up when something does not seem right.*

FINDING

6.      The Council stated it has addressed the areas of non-compliance regarding the reporting of fraud being encouraged within the organisation.

2.15    Miscellaneous fraud control measures:

**Table 1.4: BCC — miscellaneous fraud control measures**

| Audit test | Rating |
|---|---|
| Council has a risk management process that includes fraud risk and relevant control measures | ✓ |
| Internal audit function | ✗ |
| Pre-employment checks of police record, background, qualifications | ✓ |
| Enforced leave and job rotation | P[1] |
| Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)? | P[2] |
| Fraud-related insurance cover | ✓ |

[1] The requirement is written into the Leave Management Policy but not enforced. We found 13 employees with more than two years' annual leave entitlements.

[2] Trend analysis is conducted while data mining is not.

2.16    The Council provided the following response:

*Miscellaneous fraud control measures*

*Council's Audit Committee have resolved to implement some internal audit work on an annual basis commencing with an internal audit of the payroll system and business processes in late 2015.  It is intended to test fraud control measure son an annual basis.*

*There has been no further enforcement of the Leave Management Policy requirement to enforce leave and job rotation and no planned change to the way leave is managed.*

*There is some fraud detection activity undertaken by management including data and trend analysis and a regular internal cash count process has been implemented.*

2.17    The Council provided the following update in 2018:

*Further to commentary provided in February 2016, Council's Audit Committee commenced an ongoing internal audit program using independent auditors. In 2015-16 an audit of the payroll system and business processes was undertaken. This has since been followed with an internal audit of accounts payable and GST*

*compliance in the 2016-17 financial year; an internal audit of Council's systems and processes in relation to parking revenue in the 2017-18 financial year, and an internal audit to commence in October 2018 of Council's systems and processes in relation to credit card expenditure.*

*Council has implemented monthly leave reports reviewing any excess levels of leave which is then provided to managers to address. Managers are responsible for ensuring their staff do not have unacceptable levels of leave.*

FINDING

7. The Council stated Managers are responsible for ensuring their staff do not have unacceptable levels of leave. This only partially addresses the element of enforced leave and job rotation.

8. The Council stated it has addressed the other areas of partial or non-compliance regarding miscellaneous fraud control measures.

2.18    Internal controls around assets:

**Table 1.5: BCC — internal control: assets**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| building access permissions | ✓ |
| physical security (e.g. alarms, locks) | ✓ |
| portable and attractive items register | ✗ |
| movements of equipment accounted for | ✗ |
| termination checklist (including keys, personal use items) | ✗[1] |
| declare and record conflicts of interest, gifts | P[2] |
| Monitoring controls: | |
| stocktakes | ✗[3] |
| acquisition and disposal reviews | ✓ |

[1] No formal record that council equipment had been returned and computer system access had been removed.

[2] Lack of clarity about some gifts and reasons for allowing their personal retention.

[3] There is no formal stocktake process although informal reviews of plant lists are performed by the depot manager.

2.19    The Council provided the following response:

*Preventative controls – Council does not have a portable and attractive items register and does not intend to implement.*

*Stocktakes - Whilst there is some stocktake activity undertaken by the Depot Manager, there continues to be no formal requirement to undertake stocktakes.*

*Declaration of gifts - Council reviewed and updated its Receipt of Gifts, Benefits and Inducements Policy in May 2015.  The Policy sets clear guidelines for aldermen and employees to enable them to deal with any offer of a gift or benefit and seeks to manage the perception of undue influence.  A reminder is sent at Christmas, the policy was discussed at the Management Executive meeting when revised and there*

*is also a subject page on council's staff intranet (Biki) informing staff on their responsibilities.*

*Declaration of Conflicts of Interest – Council approved a new workplace policy 'Declaration of Interest by an Employee' in September 2013.  The purpose of the policy is to minimise potential conflicts of interest in decision-making processes, and to ensure compliance with the Local Government Act 1993 in respect to employee declarations of interest.  The policy advises the legal requirement upon all employees at Burnie City Council to declare an interest in any matter of Council where a decision may result in a likelihood or expectation that they may receive a benefit or detriment.*

2.20    The Council provided the following update in 2018:

*Council does not have a portable and attractive items register and does not intend to implement. Some stocktake activity is carried out by the Depot Manager. Council has recently appointing a new position of Assistant Accountant – Assets, as a dedicated resource to improve asset accounting across Council.*

*Termination checklists have been implemented to ensure Council equipment is returned and access to computer systems has been removed, when staff cease employment.*

*The Receipt of Gifts, Benefits and Inducements Policy has recently been updated to take into account recent changes to the Local Government Act 1993 and General Regulations.*

2.21    The Committee wrote to the Council seeking its rationale for resisting implementation of the recommendation to introduce a portable and attractive items register.

2.22    The Council responded:

*Council does not see the need to implement a separate 'portable and attractive items register' as it currently has a number of processes in place to mitigate the risk of portable or attractive items being subject to fraud.*

- *A register of small plant and equipment in Council's asset system which is used by the Depot to review and audit Council's small plant (Chainsaws, mowers, generators etc). A significant review of the small plant asset register has recently been completed and an audit of small plant at the depot is expected to be completed on a yearly basis going forward.*
- *Other attractive items such as mobile phone and iPad/tablets are seen as a consumable and are currently leased by Council over a 24 month period through Council's telephone provider. Review of usage and monitoring of ownership is completed by a subsidiary of Council Tas Communications as part of its ICT Service Level Agreement, this is completed mainly when changing over of an IPad/Phone at the end of a 24 month period with the old device being handed back to Tas Communications.*

FINDING

9.  The Council stated it does not have and does not intend to implement a portable and attractive items register.

10. Following a request for further information the Council detailed the processes it has to mitigate the risk of portable or attractive items being subject to fraud.

11. The Council stated only some stocktake activity is undertaken by the Depot Manager however, an Assistant Accountant Assets has been recently appointed.

2.23    Internal controls around receipts:

**Table 1.7: BCC — internal control: receipts**

| Internal controls | Rating |
|---|---|
| **Preventive controls:** | |
| completeness of cash receipts (budgetary control, cash registers) | ✓ |
| reconciliation of subsidiary records (e.g. rates, Olympic Pool, childcare centres) | ✓ |
| segregation of duties (including system access controls) | ✗[1,2] |
| **Monitoring controls:** | |
| bank reconciliations | P[3] |
| bad debt reviews | ✓ |
| budgetary oversight | ✓ |

[1] An Accounts Payable Officer had access to the rates and accounts receivable modules.

[2] Duties nominally segregated but we noted that a staff member was using their manager's userID password.

[3] No evidence of review of two of four bank reconciliations tested.

2.24    The Council provided the following response:

*Internal control: receipts*

*An independent review is undertaken on a weekly basis and the evidence of each review kept on file.*

2.25    The Council provided the following update in 2018:

*An improved bank reconciliation procedure has been implemented. Once per week the accounts receivable officer will action a completed bank reconciliation to the financial accountant. The financial accountant will review the bank reconciliation to determine the following:*

  *- closing balance for that applicable day is correct.*

*- review of all transactions on the bank reconciliation checking dates of transactions and liaising with the AR officer for any queries on transactions as to why they have not been posted for example a transaction for overpayment of parking fines will be returned to the customer. This includes a review of deposits and payments including cheques.*

*- Review of the reconciled balance.*

*- Provide commentary on the bank reconciliation. This includes commenting on unpresented cheques that are stale in nature, any issues that have been encountered with any transactions and the reasons behind why there is this error and an estimated time frame on the error being rectified.*

FINDING

12.    The Council stated it has addressed the areas of partial or non-compliance regarding internal controls around receipts.

2.26    Internal controls around payments:

**Table 1.8: BCC — internal control: payments**

| Internal controls | Rating |
|---|:---:|
| **Preventive controls:** | |
| check of supporting documents | ✓ |
| certification and authorisation | ✓ |
| bank signatories (access to accounts, electronic transfers) | P[1] |
| segregation of duties (e.g. access restrictions) | ✗[2,3] |
| termination checklist (return of credit cards, removal of system access) | ✗ |
| **Monitoring controls:** | |
| bank reconciliations | P[4] |
| supplier master file reviews | ✗[5] |
| budgetary oversight and review of large payments | ✓ |
| reconciliation of credit card statements | P[6] |

[1] Two people required for electronic bank transfers but control potentially compromised by capacity to manipulate the file after approval.

[2] An Accounts Payable Officer had access to the rates and accounts receivable modules. In addition, 13 employees had access to both payables and receivables modules.

[3] Duties nominally segregated but we noted that a staff member was using their manager's userID password.

[4] No evidence of review of two of four bank reconciliations tested.

[5] There was no evidence that changes to the supplier master file had been reviewed.

[6] On credit card monthly statements, there was no evidence in two that they had been certified by an authorising officer.

2.27    The Council provided the following response:

*Internal control payments*

*Following a restructure in early 2015, the Revenue Services function has been separated from the Accounting function (including Accounts Payable) creating greater segregation of duty between payables and receivables.  System access permissions have been able to be revised following the substantial changes to positions accountabilities.*

*Termination checklists are now in place for staff commencements and exits dealing with return of credit cards, removal from IT systems etc).*

2.28    The Council provided the following update in 2018:

*Checklists have been implemented for staff commencements and exits. Termination checklists cover the return of credit cards, removal of access from IT systems etc.*

*Bank reconciliation procedures now in place as documented above under Table 1.7 [Internal Controls: Receipts].*

*A procedure has been implemented for the review of the supplier master file. The accounts payable officer as part of their input process registers source documentation for new or updated creditor details to a creditor container in Council's Record Manager program. After the completion of each month, the financial accountant extracts a report from accounts payable which provides information on all suppliers which are either new to Council as a creditor or if the supplier has had their address or bank account details changed. The financial accountant will then review the source documentation that has been saved to Council's Record Management program to confirm if the supplier changes agree to the changes on the extracted accounts payable report.*

*Credit card statements are reconciled each month with the cardholder compiling all invoices and completing the purchase import form. After completion of the purchase import form, the cardholder will sign for the expenditure. All transactions on the credit card are reviewed by the cardholder's manager. After review the manager will sign to authorise the expenditure.*

2.29   The Committee wrote to the Council seeking clarification as to how the Council has addressed the risk associated with bank transfer file manipulation following approval (preventive controls – bank signatories (access to accounts, electronic transfers)). The Council responded:

*Council is currently working with its bank CBA to implement a product called Commbiz Automated which will allow for the ABA (Payments file) to be sent directly from accounting package directly to Commbiz and therefore removing the risk of manipulation of the file before approval.*

*Council currently has a number of controls in place to limit the risk of manipulation of the ABA file before approval being* [granted]:

- *The requirement for signatories to review the Commbiz authorization amount to the source documents from Council's accounting software before approving payments*
- *An audit is conducted on all changes to bank account details for both account payable creditor files and also employee bank account changes for payroll. A report is generated from Council's accounting software showing bank account changes and these changes are verified against source documents such as employee change of details forms and documentation from creditors requesting changes to payment details.*

*Council feels that the controls in place are adequate until Commbiz Automated is implemented which is expected before the end of 2019.*

FINDING

13.   The Council provided additional information to detail how it has addressed the risk associated with bank transfer file manipulation following approval.

14.   The Council stated it has taken action to address the other areas of partial or non-compliance regarding internal controls around payments.

2.30    Internal controls around information technology:

**Table 1.10: BCC — internal control: IT**

| Internal controls | Rating |
|---|:---:|
| **Preventive controls:** | |
| ICT security policy | ✓ |
| Password security (unique userIDs, password strength, time-out) | ✓ |
| system access restrictions | ✓ |
| termination checklist (system access) | ✗[1] |
| physical system security (of servers) | ✓ |
| **Monitoring controls:** | |
| back-up quality reviews | P[2] |
| server access automatically logged and subject to periodic review | P[3] |

[1] Two terminated employees with access privileges still existing.

[2] Backups are performed but there is no routinely scheduled testing that data could be successfully retrieved.

[3] Server access is logged but logs are not reviewed.

2.31    The Council provided the following response:

*Termination checklists are now in place for staff commencements and exits dealing with system access controls.  The checklists are coordinated centrally and a register maintained to ensure that a form is completed for every commencement and exit.*

*There have been no changes to the back up procedures.*

2.32    The Council provided the following update in 2018:

*Checklists are now in place for staff commencements and terminations which covers system access controls.*

*There have been no changes to the backup procedure but in the previous twelve months testing has occurred on a smaller scale to establish if the backup data could*

*be retrieved which was successful. Backup data is also tested by Council's IT provider within a "test" version of Council's software on a regular basis.*

FINDING

15. The Council stated it has taken action to address the areas of partial or non-compliance regarding internal controls around IT.

2.33    The Council responses in the following paragraphs are taken from the Council questionnaire responses of 2016 and 2018.

2.34    Elements of a high-level anti-fraud framework:

**Table 2.1: CCC — elements of a high-level anti-fraud framework**

| Audit test | Rating |
|---|---|
| High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated) | ✗ |
| Fraud Control Plan (reviewed within the last two years) | ✗ |
| Internal controls and delegations (reviewed within the last two years) | P[1] |
| Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment | ✓ |
| Fraud register | ✗ |
| Losses due to fraud are costed to the responsible business unit? | ✓ |
| Individual manager position statements that encompass fraud risk management responsibilities. | ✗ |
| Fraud Control Officer (adequately resourced) and defined roles and accountabilities | ✗ |

[1] Internal controls are documented but not recently updated.

2.35    The Council provided the following response:

- *Fraud Control Policy adopted May 2014.*
- *Fraud Control Plan - reviewed annually*
- *Internal controls and delegations - reviewed and presented to Audit Committee April 2017*
- *Fraud Register - In place and presented to the Audit Committee November 2015.*
- *New position descriptions meet the requirements and current role descriptions will be updated in due course. Position Descriptions continue to be updated.*
- *Fraud Control Officer nominated and role defined in accordance with the Fraud Policy.*

2.36    The Committee wrote to the Council seeking further information regarding elements of a high-level anti-fraud framework including whether:

- *the Council has reviewed its high level policy since adoption;*
- *the internal controls and delegations have been adopted by Council following review by the Audit Committee;*
- *individual manager position statements have all been updated; and*
- *the role of Fraud Control Officer has been filled.*

2.37    The Council responded:

- *The Fraud Control policy is currently under review;*

- *in accordance with Clarence City Council procedures, Code for Tendering and Contracts, Procurement Policy, Alderman's Code of Conduct, Operation's Group Code of Conduct;*

- *updates have been made to individual manager position descriptions within 'Compliance obligations' section, which covers employees obligations to comply with Fraud Policy. Further work will be undertaken to identify specific Senior Manager's responsibilities in position description; and*

- *as outlined in the Fraud Control Policy and Plan, the Corporate Secretary (Manager Corporate Support) is the designated Fraud Control Officer.*

FINDING

16.    The update provided by Council indicates progress toward full compliance however, the response indicates work continues with regard to scheduling regular reviews of the fraud control policy and the update of position descriptions.

2.38    Communication of the anti-fraud framework:

**Table 2.2: CCC — how is the framework communicated?**

| Audit test | Rating |
|---|:---:|
| Regular training provided in respect of fraud awareness? | ✖ |
| Code of Conduct communicated at induction? | ✓ |
| Statement of compliance with Code of Conduct and fraud policies signed annually? | ✖ |
| Updates to fraud-related documents communicated effectively (fraud survey) | ✖ |
| Fraud control incorporated into performance management system | ✖ |
| Internal controls communicated effectively? | ✓ |

2.39    The Council provided the following response:

Regular training provided in respect of fraud awareness:

> *Incorporated in employee induction program and included in annual policy refresher.*

Statement of compliance with Code of Conduct and fraud policies signed annually

> *Refresher induction program under review and will be incorporated in this process. Included in our Code of Conduct Policy. First Day Induction checklist provides overview of this policy and sign off.*

Updates to fraud related documents communicated effectively (fraud survey)

> *Refresher induction program under review and will be incorporated in this process. Not progressed to date.*

Fraud control incorporated into performance management system

> *Refresher induction program under review and will be incorporated in this process.*

2.40    The Committee wrote to the Council seeking further information regarding compliance with the Auditor-General's recommendation to demonstrate the Council has addressed communication of its anti-fraud framework.

2.41    The Council responded:

*HR currently includes Code of Conduct policy which has direct relevance to Council's Fraud Control Plan strategies. HR is currently exploring [an] electronic induction package which would include communication of anti-fraud framework.*

FINDING

17.    The Council response to the Committee's request for further information indicates they are continuing to work toward full compliance with the recommendations of the Auditor-General regarding communication of its anti-fraud framework.

2.42    Encouragement of reporting of fraud:

**Table 2.3: CCC — is reporting of fraud encouraged?**

| Audit test | Rating |
|---|---|
| Documented procedure for reporting suspicions? | ✓ |
| Procedures for dealing with suspected fraud? | P[1] |
| Fraud Control Officer or alternate line of reporting? | P[2] |
| Employees would report a suspected fraud? (from staff survey) | P[3] |
| Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey) | ✗[4] |

[1] No fraud control policy but had an audit committee, requirement for incidents to be reported to management and guidelines on conduct of an investigation.

[2] Lines of reporting were not defined but most employees were aware of reasonable options to report suspicions.

[3] A relatively high 25 per cent of surveyed employees stated that they would not report suspicions.

[4] Of employees that we surveyed, 42 per cent were not confident that they would have Council's support in all cases.

2.43    The Council provided the following response:

Procedures for dealing with suspected fraud:

*Incorporated in adopted Fraud Control Policy.*

Fraud Control Officer or alternate line of reporting:

*Incorporated in adopted Fraud Control Policy.*

Employees would report a suspected fraud? (from staff survey):

*Implementation of training initiatives and the Fraud Control Policy are in place to address this observation.*

Employees confident that Council would support them if they reported suspected fraudulent activity:

*Implementation of training initiatives and the Fraud Control Policy are in place to address this observation.*

2.44    The Committee wrote to the Council seeking further information:

- To provide evidence of the impact of training initiatives and the Fraud Control Policy (such as the results of recent staff survey(s)) on employees reporting suspected fraud; and

- To provide an update on the level of employee confidence that the Council would support them if they reported suspected fraudulent activity.

2.45    The Council responded:

*Council has recently procured a survey platform which has capacity for both external and internal surveys. The platform will be explored …for conducting future staff surveys.*

FINDING

18.     The Council response to the Committee's request for additional information did not address the questions posed.

19. The Council response indicates the Council has not addressed the areas of partial and non-compliance regarding the reporting of fraud being encouraged within the organisation.

2.46 Miscellaneous fraud measures:

**Table 2.4: CCC — miscellaneous fraud control measures**

| Audit test | Rating |
|---|---|
| Council has a risk management process that includes fraud risk and relevant control measures | ✗[1] |
| Internal audit function | ✓ |
| Pre-employment checks of police record, background, qualifications | ✗ |
| Enforced leave and job rotation | P[2] |
| Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)? | ✗ |
| Fraud-related insurance cover | ✓ |

[1] An assessment of fraud and corruption risks had not been performed although some risks had been identified in a fraud discussion paper.

[2] Leave is enforced, but not job rotation.

2.47 The Council provided the following response:

Council has a risk management process that includes fraud risk and relevant control measures:

> *Incorporated in adopted Fraud Control Policy.*

Pre-employment checks of police records, background, qualifications:

> *Incorporated into recruitment checklist for implementation on identified positions as required.*

Enforced leave and job rotation:

> *Enforced leave is in place. Enforced job rotation is not mandated. This is a known risk with judgement being exercised in balancing the recommended*

*control with impracticalities associated with the small number of employees engaged in the areas in question.*

Fraud detection activity by management (e.g. computer assisted data mining, trend analysis)?:

> *Technology One's software solution "OneCouncil Core Enterprise Suite" was implemented in August 2017. Data analytic capability is enhanced and internal controls strengthened through system workflow functionality and online enquiry tools.*

2.48    The Committee wrote to the Council seeking further information regarding:

- the positions which have been identified for pre-employment checks (police check, qualifications and background); and

- how the risk management process has been incorporated into the Fraud Control Plan.

2.49    The Council responded:

*Mandatory checks are in place such as -*
> *1) Police checks and Working with Vulnerable people checks for Volunteer services and Working with children checks*

> *2) Working with children checks for Child care workers*

*HR and Corporate Support will develop a matrix which would enable review of staff profile which require screening checks (police, working with vulnerable people, working with children, white card)*
*The Risk Management process has been incorporated into the Fraud Control Plan as per below -*
> *a) Regular program for fraud risk assessment - The Fraud Control officer is responsible for ensuring the fraud risk assessment of the overall internal control environment is undertaken and recommendations arising from any reassessments are implemented. The frequency is based on the frequency of process reviews identified in the Risk Register.*

*b) Ongoing review of fraud control strategies - A review of effectiveness of fraud control strategies within each functional areas is to be undertaken periodically.*

*c) Internal control review will be undertaken following discovery of fraud.*

FINDING

20. There is inadequate information in the Council response to assess whether the pre-employment checks have been addressed or are yet to be addressed.

21. The Council acknowledges but has not mitigated the risk of fraud by implementing enforced job rotation.

22. The Council stated it has addressed the detection of fraud by management through the implementation of its new Technology One software solution.

2.50    Internal controls around assets:

**Table 2.5: CCC — internal control: assets**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| building access permissions | ✓ |
| physical security (e.g. alarms, locks) | ✓ |
| portable and attractive items register | P[1] |
| movements of equipment accounted for | ✓ |
| termination checklist (including keys, personal use items) | ✗ |
| declare and record conflicts of interest, gifts | P[2] |
| Monitoring controls: | |
| stocktakes | ✓ |
| acquisition and disposal reviews | ✓ |

[1] Listings existed for depot and IT items, but no register providing control over all portable and attractive items.

[2] Pecuniary interests are declared but there was no gift register.

2.51    The Council provided the following response:

Portable and attractive items register:

*In place and incorporated in termination checklist.*

Termination checklist ( including keys, personal use items):

*Termination checklist revised and in place.*

Declare and record conflicts of interest, gifts:

*Policy now in place. Conflicts of interest and gift registers in place.*

FINDING

23.    The Council stated it has addressed the areas of partial or non-compliance regarding internal control around assets.

2.52    Internal controls around receipts:

**Table 2.7: CCC — internal control: receipts**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| completeness of cash receipts (budgetary control, cash registers) | ✓ |
| reconciliation of subsidiary records (e.g. rates, Clarence Pool, childcare centres) | P[1] |
| segregation of duties (including system access controls) | ✗[2] |
| Monitoring controls: | |
| bank reconciliations | ✓ |
| bad debt reviews | ✓ |
| budgetary oversight | ✓ |

[1] Most subsidiary systems reconciled to receipts. However, reconciliations of property valuations and changes to rating valuations were not evidenced as checked.

[2] We noted three employees who had more than enquiry-access to the receivables and payables modules. However, all payments were checked by at least one other signatory and additional system controls result in this being viewed as low-risk.

2.53    The Council provided the following response:

Reconciliation of subsidiary records (e.g. rates Clarence Pool, Childcare centres):

*Reconciliations are completed and ongoing monitoring in place.*

Segregation of duties (including system access controls):

*The report noted that other controls are in place to mitigate this risk and that the risk is low. However the report does not detail the additional controls in place. Management does not agree with the negative assessment of this item.*

*The implementation of OneCouncil CES has improved access control and monitoring capabilities.*

FINDING

24. The Council acknowledges the low risk in internal controls around receipts with regard to non-compliance in the area of segregation of duties but stated it is confident it has mitigated against the risk with the implementation of the Technology One's software solution "OneCouncil Core Enterprise Suite".

2.54    Internal controls around payments:

**Table 2.8: CCC — internal control: payments**

| Internal controls | Rating |
|---|:---:|
| Preventive controls: | |
| check of supporting documents | ✓ |
| certification and authorisation | ✓ |
| bank signatories (e.g. access to accounts) | P[1] |
| segregation of duties (including system access restrictions) | ✗[2, 3] |
| termination checklist (return of credit cards, removal of system access) | ✗ |
| Monitoring controls: | |
| bank reconciliations | ✓ |
| supplier master file reviews | ✗[4] |
| budgetary oversight and review of large payments | ✓ |
| reconciliation of credit card statements | ✓ |

[1] Two people required for electronic bank transfers but control potentially compromised by capacity for manipulation after files are prepared temporarily residing in an unsecure drive.

[2] In 2011–12, six invoices lacked documented authorisation and two where delegations could not be determined.

[3] We noted three employees with access to the receivables and payables modules. However, all payments were checked by at least one other signatory and additional system controls result in this being viewed as low-risk.

[4] There was no evidence that changes to the supplier master file had been reviewed.

2.55    The Council provided the following response:

Bank signatories (e.g. access to accounts):

*The "partial compliance" in this area fails to detail the additional controls in place to mitigate this risk. Management noted at the time of the report*

*that the controls in place are significantly stronger than detailed in the report.*

Segregation of duties (including system access restrictions):

> *The report noted that other controls are in place to mitigate this risk and that the risk is low. However the report does not detail the additional controls in place. Management does not agree with the negative assessment of this item.*

Termination checklist (return of credit cards, removal of system access):

> *Implemented.*

Supplier master file reviews:

> *Implemented through development of exceptions/activity report.*

2.56 The Committee wrote to the Council seeking further information regarding:

- controls in place to mitigate the risk of a bank transfer data file being manipulated following approval; and

- detail of additional controls in place to mitigate against the risk presented by the lack of the recommended segregation of duties (including measures in place to ensure appropriate authorisation of invoices).

2.57 The Council responded:

*Internal controls in place include: Segregation of duties with regard to the creation of the file and the approval of the file, multi person authorisation of bank files, review of payables to bank file. Progressing to straight through processing pending system capability analysis and configuration. The temporary storage of the file is now on a secured drive with limited access.*

*The implementation of Technology Ones Core Enterprise Suite fully integrated software has provided enhanced internal controls over the purchasing to payment transaction lifecycle. All invoices MUST have an approved purchase order that has been approved in accordance with the organisation's Procurement Policy which*

*includes delegations. System controls that are in place minimise the risk of invoices being authorised inappropriately. Access to payables processing is limited to staff that perform that duty only who in turn do not have system access to the authorisation of the processing of the bank file.*

FINDING

25. The information provided by Council in response to an additional request for information stated internal controls in the areas of bank transfers and segregation of duties have been improved.

26. The Council stated the other areas of non-compliance have been addressed.

2.58    Internal controls around payroll:

**Table 2.9: CCC — internal control: payroll**

| Internal controls | Rating |
|---|:---:|
| Preventive controls: | |
| control over 'ons and offs' in the payroll system | ✓ |
| timesheet approval | ✓ |
| authorisation of variations (including allowances, overtime, rates of pay, leave) | ✓ |
| segregation of duties (including system access restrictions) | ✓ |
| Monitoring controls: | |
| management reports (summaries, variation reports, employee listings, counts or 'ons and offs', budget analysis) | P[1] |

[1] Reports are produced but for one of four periods tested were not evidenced as checked.

2.59    The Council provided the following response:

Payroll management reports (summaries, variations, reports, employment listings, counts of "ons and offs" budget analysis:

*Reports are produced and evidenced as checked.*

27.     The Council stated it has addressed this area of partial compliance.

2.60    Internal controls around information technology:

**Table 2.10: CCC — internal control: IT**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| ICT security policy | ✓ |
| password security (unique userIDs, password strength, time-out) | ✓ |
| system access restrictions | ✓ |
| termination checklist (system access) | ✗ |
| physical system security (of servers) | ✓ |
| Monitoring controls: | |
| back-up quality reviews | ✓ |
| server access automatically logged and subject to periodic review | P[1] |

[1] The system automatically creates access logs but these are not routinely reviewed.

2.61    The Council provided the following response:

Server access automatically logged and subject to periodic review:

> *OneCouncil Core Enterprise Suite is a cloud based application. Access is managed via Microsoft Azure and Active Directory. Access is only allowed on an approval basis and is logged automatically. Monitoring capability is enhanced and reviewed periodically.*

FINDING

28.     The Council stated it has addressed the areas of partial and non-compliance.

2.62    Elements of a high-level anti-fraud framework:

**Table 3.1: GTC — elements of a high-level anti-fraud framework**

| Audit test | Rating |
|---|---|
| High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated) | ✗ |
| Fraud Control Plan (reviewed within the last two years) | ✗ |
| Internal controls and delegations (reviewed within the last two years) | ✗[1] |
| Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment | ✓ |
| Fraud register | ✗ |
| Losses due to fraud are costed to the responsible business unit? | ✓ |
| Individual manager position statements that encompass fraud risk management responsibilities. | ✗ |
| Fraud Control Officer (adequately resourced) and defined roles and accountabilities | ✗ |

[1] Documentation of controls was described as a 'work in progress'.

2.63    The Council provided the following response:

High level policies discuss fraud (including definitions and explicit statements that fraud will not be tolerated):

*A Fraud Prevention and Control Policy was adopted by Council on the 19/3/2014 that complies with these requirements. A review of this policy is scheduled and will be undertaken in November 2018.*

Fraud Control plan (reviewed within the last 2 years):

*A fraud control plan was developed and implemented at the same time as the Fraud prevention and Control Policy. To be reviewed as part of the policy review.*

Internal controls and delegations (reviewed within the last two years):

*Ongoing review, updated following Organisational review outcome 1/1/18*

Fraud Register:

*Fraud Register developed.*

Individual manager position statements that encompass fraud risk management responsibilities. Further detail of an individual's fraud management responsibilities are outlined within the fraud control plan:

*Position statements for all employees now encompass fraud risk responsibilities. (See attached).*

Fraud Control Officer (adequately resourced) and defined roles and accountabilities:

*Refer to the Fraud Control Plan.*

FINDING

29.   The Council has acted and provided evidence it has addressed all areas of non-compliance regarding elements of a high-level anti-fraud framework.

2.64    Communication of the anti-fraud framework:

**Table 3.2: GTC — how is the framework communicated?**

| Audit test | Rating |
|---|:---:|
| Regular training provided in respect of fraud awareness? | ✗ |
| Code of Conduct communicated at induction? | ✓ |
| Statement of compliance with Code of Conduct and fraud policies signed annually? | P[1] |
| Updates to fraud-related documents communicated effectively (fraud survey) | P[2] |
| Fraud control incorporated into performance management system | ✗ |
| Internal controls communicated effectively? | ✗[3] |

[1] Only some employees re-sign the Code of Practice each year.

[2] Only relevant document — Code of Practice — not updated since 2000.

[3] Employees surveyed were vague and inconsistent in their responses.

2.65    The Council provided the following response:

Regular training provided in respect of fraud awareness?:

*Annual training sessions for all staff have been held. The first round was an in house training session, see content attached. The training was again conducted by the Integrity Commission in 2017.*

Statement of compliance with Code of Conduct and fraud policies signed annually?:

*Annual sign offs for Fraud Policy compliance sought from employees. To be completed for 2018*

Updates to fraud related documents communicated effectively (fraud survey):

*Updates if any to be included in annual training sessions, in email and via departmental meetings.*

Fraud control to be incorporated into performance management system:

*Yet to be implemented.*

Internal controls communicated effectively:

*Employees having responsibility for internal control functions are aware of their responsibilities.*

2.66    The Committee wrote to the Council seeking further information about the inclusion of fraud awareness in the performance management system.

2.67    The Council responded:

*Employees are provided with training from time to time on fraud awareness. Council meets monthly with all staff and at that time, a training item is included. Fraud Awareness is one of those training items, with the recent endorsement of the revised fraud policy, fraud has been included in the August staff meeting for discussion.*

FINDING

30.    The Council stated it has acted to address the areas of partial or non-compliance regarding communication of the anti-fraud framework.

31.    The Committee notes the proactive engagement with the Integrity Commission.

32.    The Council has provided no evidence it implemented the recommendation to include fraud control in the performance management system.

2.68    Encouragement of reporting of fraud:

**Table 3.3: GTC — is reporting of fraud encouraged?**

| Audit test | Rating |
|---|:---:|
| Documented procedure for reporting suspicions? | ✘ |
| Procedures for dealing with suspected fraud? | ✘ |
| Fraud Control Officer or alternate line of reporting? | ✘[1] |
| Employees would report a suspected fraud? (from staff survey) | ✓ |
| Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey) | P[2] |

[1] Employees were not aware of reporting options other than their supervisor.

[2] One response in a small sample indicated that the employee would not feel supported based on a previous incident. Although other responses were positive, the adverse comment was of sufficient strength to raise concerns.

2.69    The Council provided the following response:

Documented procedure for reporting suspicions?:

> *Reporting procedures are documented in the Fraud Control Plan refer item 12. There is an allegations form for reporting or individuals can use other mechanisms which are also indicated within the plan. The reporting mechanisms and processes have been included within the training provided to employees.*

Procedures for dealing with suspected fraud:

> *These are detailed within the fraud control plan.*

Fraud Control Officer or alternative line of reporting?:

> *A fraud control officer has been appointed and there are alternative lines of reporting identified within the fraud control plan which has been communicated to employees via training.*

2.70 The Committee wrote to the Council seeking information about any further employee feedback regarding confidence that the Council will support staff if they reported suspected fraudulent activity.

2.71 The Council responded:

> *An employee survey is in the process of being developed, a question with respect to the confidence of staff to report such activity will form part of this survey.*

FINDING

33. The Council stated it has taken action to address the areas of non-compliance regarding reporting of fraud being encouraged within the organisation.

34. The Council stated it is yet to determine the level of confidence staff have regarding council support if they report suspected fraudulent activity since the survey undertaken by the Auditor-General.

35. The Council stated it is developing a survey that will include a question with respect to the confidence of staff to report fraudulent activity.

2.72 Miscellaneous fraud control measures:

**Table 3.4: GTC — miscellaneous fraud control measures**

| Audit test | Rating |
|---|---|
| Council has a risk management process that includes fraud risk and relevant control measures | ✗ |
| Internal audit function | ✗ |
| Pre-employment checks of police record, background, qualifications | ✓ |
| Enforced leave and job rotation | ✗ |
| Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)? | ✗ |
| Fraud-related insurance cover | ✓ |

2.73    The Council provided the following response:

Council has a risk management process that includes fraud risk and relevant control measures:

> *Council risk register includes fraud as one of the risk categories. Within this category 10 types of fraud risk are recognised each with corresponding control measures.*

Internal audit function:

> *Council has recently made arrangements for internal audit functions to be carried out by officers of a neighbouring council (to create some independence). This first internal audit is to begin soon which will be of Council's fraud control measures and credit card processes.*

Enforced leave and job rotation:

> *Leave is negotiated with employees on a regular basis. Tasks and functions are performed by alternative staff on numerous occasions due to absences and leave arrangements.*

Fraud detection activity by management (e.g. computer assisted data mining, trend analysis):

> *Financial outcomes are reviewed on a monthly basis, variances are investigated and trends are analysed.*

2.74    The Committee wrote to the Council seeking more information about whether job rotation is undertake only to cover leave or more broadly; and has Council been required to enforce leave.

2.75    The Council responded:

> *Council does not have a formal job rotation process in place, job rotation is undertaken generally to cover periods of leave; and Council has not in recent times been required to enforce leave, where necessary the employee and Council have mutually agreed upon a leave schedule.*

36.    The Council stated it has taken action to address the areas of non-compliance regarding miscellaneous fraud control measures.

2.76    Internal controls around assets:

**Table 3.5: GTC — internal control: assets**

| Internal controls | Rating |
|---|:---:|
| Preventive controls: | |
| building access permissions | ✓ |
| physical security (e.g. alarms, locks) | ✓ |
| portable and attractive items register | ✗ |
| movements of equipment accounted for | ✓ |
| termination checklist (including keys, personal use items) | ✓ |
| declare and record conflicts of interest, gifts | ✗[1] |
| Monitoring controls: | |
| stocktakes | ✗ |
| acquisition and disposal reviews | ✓ |

[1] Staff are required to declare gifts to the General Manager but there is no register of pecuniary interests or gifts.

2.77    The Council provided the following response:

Portable and attractive items register:

*In the process of being developed*

Declare and record conflicts of interest, gifts:

*Conflicts of interest recorded in minutes/gifts recorded in register in accordance with policy.*

Stocktakes:

*Insignificant stock levels maintained*

2.78    The Committee wrote to the Council seeking further information about how conflicts of interest and gifts are declared and recorded for employees. Additionally, further information was sought regarding the management of stock and whether the portable and attractive items register has been implemented.

2.79    The Council responded:

> *A gift register is held at Council and gifts are recorded in accordance with policy. At Department staff meetings and Team Leaders Meetings, an item on the agenda is regarding conflict of interest at which time any declared conflicts are recorded on the notes from the meeting. In accordance with AASB 124 related parties, key management personnel also complete a related parties transaction disclosure annually.*
>
> *Council does not have stock on hand with the exception of small items such as stationary and PPE items.*
>
> *An attractive and portable items register has been implemented.*

### Finding

37.    The Council stated it has taken measures to address the areas of non-compliance regarding internal controls around assets.

38.    The Council stated it has implemented an attractive and portable items register.

2.80    Internal controls around contracts:

**Table 3.6: GTC — internal control: contracts**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| transparent processes | ✓ |
| variation approval | P[1] |
| exclude bidders with prior breaches of Council guidelines or poor performance | ✗[2] |
| Monitoring controls: | |
| performance reviews | ✓ |

[1] Policy is for contract variations to be approved, but we noted a price variation that was not picked up.

[2] Information on past performance is not captured and therefore may not impact on future tenders.

2.81    The Council provided the following response:

Exclude bidders with prior breaches of Council guidelines or poor performance

> *Tenders for contracts are assessed using a multi criteria analysis with assessment criteria including criteria includes previous contracts.*

2.82    The Committee wrote to the Council seeking a copy of the Council's multi criteria analysis process and information about how it mitigates against awarding contracts to bidders with prior breaches and poor performance.

2.83    The Council provided a copy of the analysis undertaken during its most recent tender process (in-confidence) and stated:

> *The past performance of contractors is taken into account under the evaluation criteria "relevant experience". Prior breaches or performance are taken into consideration here and scored accordingly. In addition to this, all past correspondence relating to performance are considered.*

39.    The Council stated that assessment of tenders is made against criteria which includes previous contracts however, the Auditor-General found that past performance is not captured.

40.    In further information, provided on request of the Committee, the Council stated it has taken action to capture past performance in its analysis of tenders.

2.84    Internal controls around payments:

**Table 3.8: GTC — internal control: payments**

| Internal controls | Rating |
|---|:---:|
| Preventive controls: | |
| check of supporting documents | ✓ |
| certification and authorisation | ✓ |
| bank signatories (access to accounts, electronic transfers) | P[1] |
| segregation of duties (including system access restrictions) | ✓ |
| termination checklist (return of credit cards, removal of system access) | ✓ |
| Monitoring controls: | |
| bank reconciliations | ✓ |
| supplier master file reviews | x[2] |
| budgetary oversight and review of large payments | ✓ |
| reconciliation of credit card statements | ✓ |

[1] Two people required for electronic bank transfers but control potentially compromised by capacity to manipulate the file after approval.

[2] There was no evidence that changes to the supplier master file had been reviewed.

2.85   The Council provided the following response:

Supplier master file reviews

> *Process implemented to review and sign off changes made to master files for payroll, rates and accounts payable. Review and sign offs are by staff independent of the maintenance process.*

2.86   The Committee wrote to the Council seeking more information about whether it has mitigated the risk associated with the manipulation of bank transfer files following approval.

2.87   The Council responded:

> *Process for approval of accounts payable payments, requires the checking and approval of a payment file by either one of the delegated approval officers. The file is then uploaded by the Accounts Payable officer directly from the system to the bank. This file is then approved by two officers with approval authority in the bank. Should changes occur to account numbers or any data within the file once at the bank, this triggers an approval by a different officer. The authoriser making the change can then not approve the file for payment.*

> *The accounts payable officer does not have access within our software to make changes to master file including bank details.*

FINDING

41.   The Council stated it has taken action to address the risk associated with bank transfer file manipulation following approval

42.   The Council has addressed the monitoring control element regarding supplier master file reviews.

2.88    Internal controls around payroll:

**Table 3.9: GTC — internal control: payroll**

| Internal controls | Rating |
|---|:---:|
| Preventive controls: | |
| control over 'ons and offs' in the payroll system | ✓ |
| timesheet approval | ✗ |
| authorisation of variations (including allowances, overtime, rates of pay, leave) | ✓ |
| segregation of duties (including system access restrictions) | ✓ |
| Monitoring controls: | |
| management reports (summaries, variation reports, employee listings, counts or 'ons and offs', budget analysis) | ✓ |

2.89    The Council provided the following response:

Timesheet approval

> *Timesheet approvals reviewed as part of payroll review and reconciliation process.*

2.90    The Committee wrote to the Council seeking information about the timesheet approval process.

2.91    The Council responded:

> *Timesheets are completed by employees on a fortnightly basis, these timesheets are provided to the Team Leader for authorisation together with any leave approvals, time in lieu and overtime approvals.*
>
> *Once processed into the system, the payroll edit is authorised by the Team Leader – Corporate and Finance in comparison to normal fortnightly requirements. At this point the timesheets for all of the staff are checked for authorisation and additional leave, overtime or time in lieu applications.*

FINDING

43.     The Council stated it has taken action to address the non-compliance internal control around timesheet approval.

2.92    The Council responses in the following paragraphs are taken from the Council questionnaires returned in 2016 and 2018.

2.93    Elements of a high-level anti-fraud framework:

**Table 4.1: HCC — elements of a high-level anti-fraud framework**

| Audit test | Rating |
|---|---|
| High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated) | ✓ |
| Fraud Control Plan (reviewed within the last two years) | ✓ |
| Internal controls and delegations (reviewed within the last two years) | ✓ |
| Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment | ✓ |
| Fraud register | ✗ |
| Losses due to fraud are costed to the responsible business unit? | ✗[1] |
| Individual manager position statements that encompass fraud risk management responsibilities. | ✗ |
| Fraud Control Officer (adequately resourced) and defined roles and accountabilities | P[2] |

[1] No policy for allocation of fraud costs.

[2] Noted that this role was to be assigned to the General Manager.

2.94    The Council provided the following response:

> *At the time of the performance audit it was Council's policy that any incidents of fraud and corruption would be recorded using the City's Public Interest Disclosure processes and systems. Section 5.1 of The City of Hobart's Fraud and Corruption Control Plan documents this requirement. Given the report recommendation that an element of a high-level anti-fraud framework was to have a Fraud Register, a separate Fraud Control Register was subsequently created and remains in existence.*

*It is the City's business process that in the event of a loss due to fraud, the loss is to be costed to the responsible business unit.  This remains the City's current business process.*

*Fraud risk management responsibilities of a manager and all employees more generally are contained in The City of Hobart's Code of Conduct and the City of Hobart's Fraud and Corruption Control Plan rather than in position descriptions.   Given the nature of fraud risk management responsibilities the aforementioned policy documents allow more scope to outline these responsibilities and these policy documents form part of the City's induction processes and ongoing training.*

*The General Manager is assigned as the City of Hobart's 'Fraud Control Officer'.  The General Manager's role and responsibilities in this context are outlined in the City of Hobart's Fraud and Corruption Control Plan.*

FINDING

44. The Council stated the incorporation of fraud risk responsibilities in its Fraud and Corruption Plan allows more scope to outline these responsibilities than within position descriptions.

45. The Council stated it has taken steps to address the other areas of partial or non-compliance regarding elements of a high-level anti-fraud framework.

2.95    Communication of the anti-fraud framework:

**Table 4.2: HCC — how is the framework communicated?**

| Audit test | Rating |
|---|:---:|
| Regular training provided in respect of fraud awareness? | P[1] |
| Code of Conduct communicated at induction? | ✓ |
| Statement of compliance with Code of Conduct and fraud policies signed annually? | ✗ |
| Updates to fraud-related documents communicated effectively (fraud survey) | P[2] |
| Fraud control incorporated into performance management system | ✓ |
| Internal controls communicated effectively? | ✓ |

[1] Awareness training was being rolled out to all staff throughout the council. Staff in high-risk positions had already received training.

[2] Updates were communicated to staff by email but the majority of surveyed employees preferred face-to-face meetings for such information.

2.96    The Council provided the following response:

*Since the performance audit the City has provided regular training in respect of fraud awareness to its employees. As an example, between September and November 2013, all employees were provided with face to face fraud and corruption awareness training. Participation and engagement in the sessions was high. The awareness sessions were designed with a focus on workplace culture, ethics and integrity. Again in 2016 and 2017 an Ethics and Code of Conduct training program was run for all employees, including the City's Executive Leadership Team and again face-to-face. The City utilised the Integrity Commission Tasmania's Ethics and Integrity Training Program modified to include the City's messages on fraud, corruption and Code of Conduct. Staff feedback was that the training model which involved ethical scenarios, group activities and videos to encourage discussion on the topics was interactive and*

*engaging. A 3-step tool was introduced by the City to assist staff in dealing with ethical decisions and risks at work.*

*The City has resolved to continue fraud and corruption awareness training regularly either as a dedicated program or as part of related training such as Code of Conduct, in order to ensure that the general level of awareness amongst all employees remains high. The next all employee fraud training program is scheduled for 2019.*

*The City of Hobart is currently undertaking a review of its Code of Conduct and it's Values. All employees have been given the opportunity to participate in the review process and comment on the drafting of the revised City of Hobart Code of Conduct and Values. While the review of the Code of Conduct is not yet complete, one of the recommendations is that a statement of compliance with the Code of Conduct is signed annually.*

*Since the performance audit a 'one-stop shop' dedicated area on the City of Hobart's employee intranet has been created with information on Fraud and Corruption and continues to be updated. The intranet area contains definitions and information on the City's Values, Code of Conduct, complementary policies and procedures, how to report, where and from whom to obtain assistance or more information (contact details are provided), documents such as the Fraud and Corruption Control Plan and the City's Public Interest Disclosure Procedures and a range of resource materials including the 3-step tool for ethical decision making introduced in 2016/17.*

*A new Fraud and Corruption Fact Sheet was prepared as part of a suite of training materials created for the 2013 employee awareness/training sessions. This fact sheet was updated in January 2016 and January 2017 and continues to be available to all employees from the staff intranet.*

*Any employees that could not attend the 2013 and 2016/17 scheduled fraud and corruption awareness sessions were provided, via their Manager, with printed training materials and asked to sign-off that they*

*had read and understood them. The City's Values are included in annual performance review documentation which requires sign-off by the employee and the reviewer. The Values include that we act responsibly and ethically.*

*In late 2015 the City undertook a culture survey of its employees. A number of questions were asked about ethical conduct including the City's code of conduct, fraud and corruption control plan and equity & discrimination policy. The results were pleasing in that the survey recorded reasonably high levels of awareness and understanding of these key documents and policies amongst employees.*

*Updates to Fraud related materials are being provided to employees by a variety of means as well as email. These means include via the employee intranet area, during face-to-face training and are discussed in Unit meetings. As an example, a number of key policies were reviewed and updated in light of comments received during the 2013 employee fraud and corruption awareness sessions, including those relating to vehicle usage and gifts & benefits. The revised policies were communicated broadly to all staff.*

*During the 2016/17 awareness sessions all employees were asked to complete a feedback form on Ethical Decisions at Work. An Action Plan was created from feedback received and endorsed by the City's Executive Leadership Team. The Action Plan included a range of continual improvement opportunities for key policies, procedures and processes and has largely been implemented.*

*Furthermore, the City of Hobart's Fraud and Corruption Control Plan has been reviewed and the amended version approved in January 2016 by the City's Executive Leadership Team. The revised Plan was communicated broadly and also formed part of the training materials for the 2016 and 2017 combined fraud, corruption, ethics, integrity and Code of Conduct training sessions.*

46. The Council stated it has taken action to address the areas of partial or non-compliance regarding communication of the anti-fraud framework.

47. The Committee notes the proactive engagement with the Integrity Commission.

2.97 Encouragement of the reporting of fraud:

**Table 4.3: HCC — is reporting of fraud encouraged?**

| Audit test | Rating |
|---|---|
| Documented procedure for reporting suspicions? | ✓ |
| Procedures for dealing with suspected fraud? | ✓ |
| Fraud Control Officer or alternate line of reporting? | P[1] |
| Employees would report a suspected fraud? (from staff survey) | ✓ |
| Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey) | P[2] |

[1] Of employees interviewed, 42 per cent identified that they would 'talk to someone in HR or Finance'.

[2] Twenty per cent of employees interviewed were not confident that they would have Council's support.

2.98 The Council provided the following response:

*Since the performance audit the City has focussed on ensuring that employees know who to report detected or suspected fraud and corruption to. It is a focus in all awareness sessions and support materials continue to be made available to all employees. Contact details of those to report to are available from the employee intranet and posters on staff noticeboards. During the late 2013 all employee fraud and corruption awareness sessions, all respondents were asked to complete a feedback form at the conclusion of each session. 87% of participants agreed that their understanding of fraud and corruption had increased as a result of the awareness session. 97% of participants agreed that if they suspected fraudulent or corrupt activity they would know who to report it to. The*

*findings from the 2016/17 awareness sessions was similar. In 2013 the number of Protected Interest Disclosure Officers was increased, particularly to ensure adequate representation for outdoor and operations staff.*

*One of the questions asked on the 2013 all employee fraud and corruption awareness sessions feedback form related to the question of whether staff would feel supported if reported detected or suspected fraud and corruption. Feedback found that 66% of participants agreed that if they reported an incident of fraud and corruption there would be no negative consequences for them in reporting. 28% were neutral on this question. This issue was a feature of and discussed with all employees during awareness sessions. Furthermore, the resource materials prepared and discussed during awareness sessions and available from the employee intranet, has a section titled 'Safety in Reporting' and 'What will happen after I make a report?'*

2.99    The Committee wrote to the Council seeking more recent data regarding confidence and support for employees in reporting suspected fraudulent activity.

2.100   The Council responded:

*Since the performance audit the City has provided regular training in respect of fraud awareness to its employees including the encouragement of reporting of fraud. As an example, between September and November 2013, all employees were provided with face to face fraud and corruption awareness training. The awareness sessions were designed with a focus on workplace culture, ethics and integrity.*

*Again in 2016 and 2017 an Ethics and Code of Conduct training program was run for all employees, including the City's Executive Leadership Team and again face to face. The City utilised the Integrity Commission Tasmania's Ethics and Integrity Training Program modified to include the City's messages on fraud, corruption and Code of Conduct. A 3-step tool*

*was introduced by the City to assist staff in dealing with ethical issues and decisions at work.*

*The City has resolved to continue fraud and corruption awareness training regularly either as a dedicated program or as part of related training such as Code of Conduct, in order to ensure that the general level of awareness amongst all employees remains high. The next all employee fraud training program is scheduled for 2019-20.*

FINDING

48. The Council stated action has been taken to address the areas of partial compliance concerning the reporting of fraud being encouraged within the organisation.

49. The Council did not provide more recent evidence of confidence to report and support for employees when reporting suspected fraudulent activity.

50. The Council demonstrated a strong commitment to fraud awareness training.

2.101  Miscellaneous fraud control measures:

**Table 4.4: HCC — miscellaneous fraud control measures**

| Audit test | Rating |
| --- | --- |
| Council has a risk management process that includes fraud risk and relevant control measures | ✓ |
| Internal audit function | ✓ |
| Pre-employment checks of police record, background, qualifications | ✓ |
| Enforced leave and job rotation | ✗ |
| Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)? | ✗ |
| Fraud-related insurance cover | ✓ |

2.102  The Council provided the following response:

*Section 3.8 of the City of Hobart's Fraud and Corruption Control Plan outlines the City's policy dealing with taking annual leave and job rotation.*

*Ensuring staff take leave on an annual basis is an important internal control to help ensure that fraudulent and corrupt activity doesn't remain hidden. It is management responsibility to ensure that all staff take leave as appropriate, and leave balances are managed within appropriate limits. These limits are prescribed in the City of Hobart's Enterprise Agreement.*

*Section 4 of The City of Hobart's Fraud and Corruption Control Plan outlines the City's fraud and corruption detection activities and program. In late 2013 the City's Executive Leadership Team considered whether data mining techniques should form part of its internal audit program. It was considered that the City had a variety of other fraud detection activities by management in place.*

2.103 The Committee wrote to the Council seeking further information regarding the '*other fraud detection activities*' it stated it has in place to mitigate fraud risk and to confirm whether forced job rotation occurs.

2.104 The Council responded:

*While forced job rotation does not occur, the City of Hobart's Fraud and Corruption Control Plan outlines the City's policy dealing with taking annual leave and job rotation. Ensuring staff take leave on an annual basis is an important internal control to help ensure that fraudulent and corrupt activity doesn't remain hidden. It is management responsibility to ensure that all staff take leave as appropriate. Limits for leave balances are provided in the City of Hobart's Enterprise Agreement and a fortnightly report of each employee's leave balances are provided to Managers and Directors for action.*

*The City's fraud and corruption detection is outlined in section 4 of the Fraud and Corruption Control Plan, complemented by the City's fraud and corruption prevention outlined in section 3 of the Fraud and Corruption Control Plan. The City also has a contracted internal audit function and a range of controls/mitigating practices.*

51.   The Council stated it monitors leave to address the fraud risk posed.

52.   The Council stated it has considered whether data-mining techniques should form part of its internal control program but considers it has a variety of other fraud detection activities by management in place

2.105   Internal controls around information technology:

**Table 4.10: HCC — internal control: IT**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| ICT security policy | ✓ |
| Password security (unique userIDs, password strength, time-out) | ✓ |
| system access restrictions | ✓ |
| termination checklist (system access) | ✓ |
| physical system security (of servers) | ✓ |
| Monitoring controls: | |
| back-up quality reviews | ✓ |
| server access automatically logged and subject to periodic review | P[1] |

[1] Server access is logged but logs are not reviewed.

2.106   The Council provided the following response:

> *At the time of the performance audit Council's ICT Unit was implementing a new server logging system that would enable quick and easy review of all server logon and logoff events in a central database.  Functionality of the new logging system would allow events in the system to be reviewed regularly.  Since the performance audit the City has implemented a system that collates all server console logon information into a single system making review simple.*

*The system monitoring server security events has been in place for some time. A report to review console logon events had not been configured but this has now been rectified and a report is now automatically emailed to the systems/Network Administrator for monthly review. The system holds historical logs that can be reported on as required.*

*The City recently completed a strategic cyber security review. An external specialist IT security and risk management consulting practice was engaged to evaluate the City's enterprise-wide information security capability in order to ensure that security impacts of the business, information, application and technology architectures are addressed. As a result of the findings and recommendations the City is in the process of appointing a Cyber Security Administrator to help mature the City's cyber security processes and policies, including raising awareness of digital security in the organisation and providing internal audit capability.*

FINDING

53. The Council stated it has taken action to address the areas of partial compliance regarding internal controls around IT.

2.107   Elements of a high-level anti-fraud framework as shown in the table below:

**Table 5.1: TC — elements of a high-level anti-fraud framework**

| Audit test | Rating |
|---|---|
| High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated) | ✗ |
| Fraud Control Plan (reviewed within the last two years) | ✗ |
| Internal controls and delegations (reviewed within the last two years) | ✓ |
| Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment | P[1] |
| Fraud register | ✗ |
| Losses due to fraud are costed to the responsible business unit? | ✗[2] |
| Individual manager position statements that encompass fraud risk management responsibilities. | ✗ |
| Fraud Control Officer (adequately resourced) and defined roles and accountabilities | ✗ |

[1] While the Code of Conduct stated that commercial bribery and unauthorised use of council resources for private purposes would not be tolerated, there was no general anti-fraud message.

[2] No policy for allocation of fraud costs.

2.108   The Council provided the following response:

High-level policies:

> *NEW Fraud Control Policy CO23*

Fraud Control Plan:

> *Within the Fraud Control Policy*

Code of Conduct (COC) providing an anti-fraud message:

> *1. Staff COC policy - updated and 2. Councillor COC Policy - updated*

Fraud Register:

*Completed*

Losses due to fraud costed to direct business unit?:

*Included in the Fraud Register*

Manager position descriptions to include fraud risk management responsibilities:

*The General Manager and Officer Managers PD's have been updated*

Fraud Control Officer:

*Within the Fraud Control Policy (Supervisor first then GM)*

2.109 The Committee wrote to the Council seeking evidence of the action taken, including a copy of the Fraud Control Policy, as the questionnaire response was cursory.

2.110 The Council responded:

> *Tasman Council does have a Fraud Control Policy which states our commitment, purpose, definitions and expectations of staff, councillors contractors, consultants as well as volunteers. Included within this policy is our Fraud Prevention Strategy; Detection and Risk Management; and Investigation Procedure.*
>
> *All policies of Council are reviewed every 2-3 years and the Fraud Control Policy is due for review this year – expired June 2019. To date this has not occurred but is scheduled for revision in November. We also have a Gifts & Benefits Policy which not only covers councillors but all staff and their delegates.*
>
> *Council does have a Fraud Register but no entries have been added since its creation. Therefore, no losses have been reported on.*
>
> *All current senior positions (General Manager, Office Manager and Building & Development Services Manager) have fraud and risk management included with their position descriptions. We do not have a*

> *dictated (sic) Fraud Control Officer – Tasman does not have the financial resources to provide this specific role.*

FINDINGS

54. The Council stated it has taken action and provided copies of policies and associated records created to address most areas of partial or non-compliance of a high-level anti-fraud framework.

55. The Council has not implemented the Auditor-General's recommendation for a Fraud Control Officer.

2.111   Communication of the anti-fraud framework as shown in the table below:

**Table 5.2: TC — how is the framework communicated?**

| Audit test | Rating |
|---|---|
| Regular training provided in respect of fraud awareness? | ✘ |
| Code of Conduct communicated at induction? | ✘ |
| Statement of compliance with Code of Conduct and fraud policies signed annually? | P[1] |
| Updates to fraud-related documents communicated effectively (fraud survey) | ✓ |
| Fraud control incorporated into performance management system | ✘ |
| Internal controls communicated effectively? | P[2] |

[1] Only some employees re-sign the Code of Conduct each year.

[2] Not all surveyed respondents demonstrated awareness of internal controls.

2.112   The Council provided the following response:

Regular training provided:

> *Incorporated in the Fraud Control Policy, Employee Induction & will be incorporated into the organisational training register (annual)*

Fraud control to be incorporated into performance management system:

> *Incorporated as part of staff annual performance appraisals*

Code of Conduct communicated at induction:

*Staff COC Policy is included as part of the Workplace Induction Program and Manual*

Internal controls communicated effectively?:

*All new/updated policies circulated to all Staff & the Staff Induction Handbook to be updated*

State of compliance with COC & fraud policies signed annually?:

*All staff to re-sign not just some. Considering whether to require a general staff declaration to be completed annually*

2.113 The Committee wrote seeking further evidence of action taken to address the areas of partial and non-compliance.

2.114 The Council responded:

*Fraud awareness is captured during staff's annual performance appraisals for all senior/supervisory positions and our staff Code of Conduct is part of our new staff induction process. However, a statement of compliance with the Code of Conduct is not signed annually – this will now be introduced.*

*Internal controls within a small staffed regional Council is difficult – the appropriate segregation of duties within our financial functions is not always achievable. Our external auditors and Audit Panel do recognise this issue.*

FINDINGS

56. The Council stated it continues to work toward addressing all areas of partial or non-compliance regarding communication of the anti-fraud framework.

57. The Council stated it has difficulty ensuring appropriate segregation of duties due to its size.

58. The lack of segregation of duties remains a fraud risk.

2.115  Encouragement of the reporting of fraud:

**Table 5.3: TC — is reporting of fraud encouraged?**

| Audit test | Rating |
|---|---|
| Documented procedure for reporting suspicions? | ✗ |
| Procedures for dealing with suspected fraud? | ✗ |
| Fraud Control Officer or alternate line of reporting? | ✗ |
| Employees would report a suspected fraud? (from staff survey) | ✓ |
| Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey) | ✓ |

2.116  The Council provided the following response:

Documented procedure for reporting suspicions?:

> *Within the Fraud Control Policy*

Procedures for dealing with suspected fraud?:

> *Within the Fraud Control Policy*

Fraud Control Office or alternative line of reporting?:

> *Within the Fraud Control Policy (supervisor first then GM)*

2.117  The Committee wrote seeking further evidence of action taken to address the areas of non-compliance.

2.118  The Council responded:

> *The reporting of fraud is encouraged within our policy and asked during annual performance appraisals. Staff culture also encourages openness when making an error and further training will be provided if deemed necessary or requested.*

FINDING

60.    The Council response did not directly address the areas of non-compliance regarding the development of documented procedures.

61.   The Council has not appointed a Fraud Control Officer or a direct line for reporting of fraud.

2.119   Miscellaneous fraud control measures:

**Table 5.4: TC — miscellaneous fraud control measures**

| Audit test | Rating |
|---|---|
| Council has a risk management process that includes fraud risk and relevant control measures | P[1] |
| Internal audit function | ✘ |
| Pre-employment checks of police record, background, qualifications | ✘ |
| Enforced leave and job rotation | ✘ |
| Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)? | ✘ |
| Fraud-related insurance cover | ✓ |

[1] There was a risk register with some fraud-related risks identified but it lacked thoroughness.

2.120   The Council provided the following response:

*Risk management process that includes fraud risk & control measures*

*1. Risk Register updated to include 1. Fraud and 2. Fraud Control Policy includes controls & processes*

*Internal audit function - Within the Fraud Control Policy*

*Pre-employment checks - Staff Induction Handbook has been updated to include mandatory police checks*

*Enforced leave & Job Rotation - Leave accruals are checked annually by external auditors. Job rotation is difficult and impractical for a small council.*

*Fraud detection activity by management - Within the Fraud Control Policy*

2.121   The Committee wrote seeking further evidence of action taken to address the areas of partial and non-compliance.

2.122 The Council responded:

> *Council's Risk Register has been updated to include fraud elements when assessing new and existing risks. Regular internal audit checks are undertaken for our cash floats & petty cash; purchasing of all items must have at least two (2) staff member approvals (as per delegations); and many other checks are done as part of the End of Financial Year process with our external auditors.*
>
> *Pre-employment police checks are part of our induction. Enforced leave and job rotation is not appropriately achieved due to our very small FTE's and limited financial resources.*

FINDINGS

62. The Council stated it cannot achieve appropriate enforced leave and job rotation due to its size and resourcing.

63. The lack of enforced leave and job rotation could contribute to an increased risk of fraud.

64. The Council stated it has taken action to address all other areas of partial or non-compliance for miscellaneous fraud control measures.

2.123 Internal controls around assets:

**Table 5.5: TC — internal control: assets**

| Internal controls | Rating |
|---|:---:|
| Preventive controls: | |
| building access permissions | ✓ |
| physical security (e.g. alarms, locks) | ✓ |
| portable and attractive items register | P[1] |
| movements of equipment accounted for | ✘ |
| termination checklist (including keys, personal use items) | ✘ |
| declare and record conflicts of interest, gifts | P[2] |
| Monitoring controls: | |
| stocktakes | ✘ |
| acquisition and disposal reviews | ✓ |

[1] Listings existed for depot items, but there was no register to control all portable and attractive items.

[2] Pecuniary interests register is used but no gift register existed.

2.124 The Council provided the following response:

Portable & attractive items register:

*Portable & attractive items register has been implemented*

Movements of equipment accounted for:

*Registers at depot and office have been implemented*

Termination checklist (eg keys):

*"Exit" Interview checklist completed*

Declare and record conflicts of interest, gifts:

*Gifts and Benefits Policy and Register*

2.125 The evidence provided was inadequate and the Committee wrote to the Council seeking documentary evidence of compliance to support its responses.

2.126   The Council responded:

> *A portable and attractive items register has been implemented – eg all Councillors and the General Manager have been issued an IPad.  At our Depot all brush-cutters and chainsaws are signed out at the time of use and returned.*
>
> *Council has an 'exit' interview checklist which ensures the return of keys, equipment, credit cards and computer access is disabled.*
>
> *Gifts & Benefits Policy covers councillors and all staff and their delegates. A Third Party Interest declaration form is also available.*
>
> *Council does not have stock on hand [*such as*] true inventory/store items on hand eg. Poly pipe, timber etc. Small plant & equipment inventory (eg. Chainsaws) is checked annually against our Asset Register for replacement & budgetary needs.  These types of items have only a 2-3 years life span.*
>
> *All items are acquired by authorised purchase order and quotes are obtained if possible.*

FINDING

65.   The Council stated it has taken action to address all areas of partial and non-compliance regarding internal controls around assets.

2.127  Internal controls around receipts:

**Table 5.7: TC — internal control: receipts**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| completeness of cash receipts (budgetary control, cash registers) | ✓ |
| reconciliation of subsidiary records (e.g. rates) | P[1] |
| segregation of duties (including system access controls) | ✗[2] |
| Monitoring controls: | |
| bank reconciliations | ✓ |
| bad debt reviews | ✓ |
| budgetary oversight | ✓ |

[1] Value of properties is reconciled to Valuer-General's records but there was no regular review of changes to property valuations in the rates module.

[2] Duties were nominally segregated but segregation was not enforced through system access controls.

2.128  The Council provided the following response:

Reconciliation for subsidiary records (eg rates):

*Monthly checks of Rates Debtors is completed.  Property valuation check is automatically within PropertyWise - this system will not operate unless figures are correct to the Valuer-General's.*

Segregation of duties (including system controls):

*PropertyWise permissions are controlled by an administrator.  Ideal segregation of duties is not possible for a small council.*

2.129  The Committee wrote to the Council seeking further information about the segregation of duties as an internal control.

2.130   The Council responded:

*Reconciliation of subsidiary ledgers (eg. Rates) are now undertaken on a monthly basis.   Property valuation data (from the Valuer-General) is uploaded within the property management system from a provided file. Also, spot checks on unusual property valuation movement is also undertaken.*

*Segregation of duties, as previously stated, is not appropriately achieved due to our small FTE's and limited financial resources.*

FINDING

66.    The Council stated it has addressed the areas of partial compliance.

67.    The Council outlined its inability to achieve appropriate segregation of duties due its size and resources.

2.131 Internal controls around payments:

**Table 5.8: TC — internal control: payments**

| Internal controls | Rating |
|---|:---:|
| Preventive controls: | |
|     check of supporting documents | ✓ |
|     certification and authorisation | ✓ |
|     bank signatories (accounts access, electronic transfers) | ✓ |
|     segregation of duties (incl. system access restrictions) | ✗[1] |
|     termination checklist (return of credit cards, removal of system access) | ✗ |
| Monitoring controls: | |
|     bank reconciliations | ✓ |
|     supplier master file reviews | ✗[2] |
|     budgetary oversight and review of large payments | ✓ |
|     reconciliation of credit card statements | P[3] |

[1] Duties were nominally segregated but segregation was not enforced through system access controls.

[2] There was no evidence that changes to the supplier master file had been reviewed.

[3] Monthly credit card statements were reconciled. However, errors were noted by audit and the General Manager had checked his own statement.

2.132 The Council provided the following response:

Segregation of duties (including system controls):

> *Xero access permissions are controlled by an administrator. Ideal segregation of duties is not possible for a small council.*

Termination checklist (return of credit cards & removal from all systems etc):

> *"Exit" Interview checklist completed*

Supplier master files reviewed:

> *Introduce an annual review of creditors no longer in use and block them from payments.*

Reconciliation of credit card statements:

> *General Manager's credit card statement is now approved for payment by the Officer Manager*

2.133   The Committee wrote to the Council seeking information about action taken to address the outstanding areas of non-compliance.

2.134   The Council responded:

> *Segregation of duties, as previously stated, is not appropriately achieved due to our small FTE's and limited financial resources.*

> *Council has an 'exit' interview checklist which ensure the return of keys, equipment, credit cards and computer access disabled.*

> *Credit cards are reconciled monthly.  The General Manager's credit card must be authorised and reviewed by Council's Audit Panel.*

FINDING

68.   The Council stated it has addressed most areas of partial and non-compliance.

69.   The Council reiterated its inability to achieve appropriate segregation of duties due its size and resources.

2.135   Internal controls around payroll:

**Table 5.9: TC — internal control: payroll**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| control over 'ons and offs' in the payroll system | ✓ |
| timesheet approval | ✓ |
| authorisation of variations (including allowances, overtime, rates of pay, leave) | ✓ |
| segregation of duties (including system access restrictions) | ✗[1] |
| Monitoring controls: | |
| management reports (summaries, variation reports, employee listings, counts or 'ons and offs', budget analysis) | ✗ |

[1] Duties were nominally segregated but segregation was not enforced through system access controls. We recognise that segregation is hard to achieve in such a small council. Nonetheless, the control was not effective and it is therefore important that alternative controls exist.

2.136   The Council provided the following response:

Segregation of duties (including system controls):

*Xero permissions are controlled by an administrator. Ideal segregation of duties is not possible for a small council.*

Management Reports:

*Monthly and mid -year financial reports are monitored against budget and any Council decision made for change. Monthly finance report are also included with each ordinary council meeting.*

2.137   The responses provided were inadequate and the Committee wrote seeking information regarding monitoring controls and segregation of duties.

2.138   The Council responded:

> *Segregation of duties, as previously stated, is not appropriately achieved due to our small FTE's and limited financial resources.*
>
> *Monitoring controls – monthly financial reports to Senior Staff and Council are provided to view the movements from month to month in line with the adopted annual Budget.  Any unusual movements more than 10% plus or minus have to be explained & documented.*

FINDINGS

70.   The Council stated it is now using management reports as a monitoring control.

71.   The Council reiterated its inability to achieve appropriate segregation of duties due its size and resources.

2.139   Internal controls around information technology:

**Table 5.10: TC — internal control: IT**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| ICT security policy | ✘ |
| Password security (unique userIDs, password strength, time-out) | ✓ |
| system access restrictions | ✘ |
| termination checklist (system access) | ✘ |
| physical system security (of servers) | ✘[1] |
| Monitoring controls: | |
| back-up quality reviews | P[2] |
| server access automatically logged and subject to periodic review | P[3] |

[1] Two terminated employees with access privileges still existing.

[2] Backups are performed but there is no routinely scheduled testing that data could be successfully retrieved. Also, the backups are not held off site.

[3] Server access is logged but logs are not reviewed.

2.140   The Council provided the following response:

ICT security policy:

*Policies updated*

System access restrictions:

*Restrictions to access are made by relevant ICT personnel upon request and many are already in place*

Termination checklist (system *access):*

*"Exit" Interview checklist completed*

Physical system security (of server):

> *Low physical access security does exist for the servers due to the age and configuration of the office, however, the building is alarmed and monitored.*

Back-up quality reviews:

> *Backups retained on site in fire proof safe. Practical and cost implications for offsite storage. Routine scheduling to be investigated when programmed renewal of server capability between Tasman and Sorell occurs.*

Server access automatically logged and subject to periodic review:

> *Policies updated*

2.141   The Committee wrote to Council expressing concern about the lack given to the initial response and sought further detail.

2.142   The Council responded:

> *Security – Council now has management policies in place for the Acceptable Use of ICT and ICT Password Authorisation Permissions.*

> *Council has an 'exit' interview checklist which ensure the return of keys, equipment, credit cards and computer access disabled.*

> *Council only this year, experienced a back-up failure and had to rely on previous versions and systems updates. Council servers are within a separate locked, air-conditioned room with limited access to only senior staff members when required under the supervision of our external ICT support. These backups are retained both onsite in a fire proof safe and externally within the online Cloud environment.*

> *Server access logs are not subject to periodic review currently. This will require additional financial resources to enable this undertaking.*

FINDING

72.     The Council does not currently undertake periodic reviews of server access logs.

73. The Council stated it has taken action to address all other areas of partial or non-compliance regarding internal controls around IT.

2.143 Elements of a high-level anti-fraud framework:

**Table 6.1: WCC — elements of a high-level anti-fraud framework**

| Audit test | Rating |
|---|---|
| High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated) | ✓ |
| Fraud Control Plan (reviewed within the last two years) | ✓ |
| Internal controls and delegations (reviewed within the last two years) | ✗ |
| Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment | ✓ |
| Fraud register | ✗ |
| Losses due to fraud are costed to the responsible business unit? | ✗ |
| Individual manager position statements that encompass fraud risk management responsibilities. | ✗ |
| Fraud Control Officer (adequately resourced) and defined roles and accountabilities | ✓ |

2.144 The Council provided the following response in 2018 which incorporates the original 2016 data:

Internal Controls & Delegations:

> *Internal controls are continually reviewed and Council is satisfied that best practice is being applied. Internal policies were reviewed in October 2015.*

> *A full delegation review has been undertaken over the last five months, with the final report to be presented at the April 2016 Council meeting. The report will be discussed at the April Councillor workshop.*

> *Internal control framework and policies have been completed by Council and reviewed.*

> ***2018 Response*** *– Audit Panel reviewing the WCC.CORP.011 Fraud Protection Policy. Policy remains active and no changes required.*

*All delegations reviewed as recent as EOM August and all signed off by the Acting General Manager and applicable delegated staff.*

Fraud Register:

*Council has created an appropriate register to satisfy the audit requirement. Since implementation we have not had to use the register.*

***2018 Response*** *Register not used, no acts of fraud to note given the high level of controls.*

Losses due to fraud are costed to the responsible business unit:

*Council to date has not experienced any fraud therefore costs have not been shown within our accounts.*

***2018 Response s****till remains the same.*

Individual manager position statements that encompass fraud risk management responsibilities:

*All position descriptions not limited to management will be updated to reflect both fraud risk management and safety compliance. This will be conducted in line with the continuing corporate review and expected to be finalised in the next 6 to 12 months.*

***2018 Response –*** *Need to review* [all position descriptions] *further as to the extent of which this was added, ongoing*.

2.145 The Committee wrote to the Council requesting a copy of the Council Fraud Control Policy; Fraud Control Plan; and excerpts from fraud control registers held.

2.146 The Council provided a copy the Fraud Control Policy and the Employee Handbook which includes the Fraud Protection Policy as an appendix.

2.147   The Council stated:

*A register was established as previously recommended, with no entries completed. In addition to the register Council's Corporate Services Manager and General Manager both sign a Management Representation Letter each year for Audit Tasmania, confirming if we have been made aware of any fraud or corruption within Council during the twelve-month reporting period.*

FINDING

74.   The Council stated it has taken action to address all areas of non-compliance regarding elements of a high-level anti-fraud framework except the revision of individual manager position statements which is in progress.

2.148   Communication of the anti-fraud framework:

**Table 6.2: WCC — how is the framework communicated?**

| Audit test | Rating |
|---|---|
| Regular training provided in respect of fraud awareness? | ✗ |
| Code of Conduct communicated at induction? | ✓ |
| Statement of compliance with Code of Conduct and fraud policies signed annually? | ✗ |
| Updates to fraud-related documents communicated effectively (fraud survey) | ✓ |
| Fraud control incorporated into performance management system | ✗ |
| Internal controls communicated effectively? | ✗ |

2.149   The Council provided the following response:

Regular training provided in respect of fraud awareness:

*Information sessions have been provided to all staff and elected members in respect to Harassment and Bullying, Fraud Awareness and Whistle Blower procedure and policy in late 2013. At the conclusion of the session attendees signed an attendance sheet to confirm that they have been*

*provided the awareness training. (A handout booklet was provided with all applicable policies.).*

*2015 Council provided all staff and Councillors with Integrity Commission information sessions.*

*2016 Council presented an integrity power point presentation at each toolbox meeting. Each of the above sessions included information related to fraud awareness.*

*The Fraud Protection Policy & Whistle Blower Policy is provided to all new staff within the induction process at the commencement of employment.*

***2018 Response –*** *Ongoing messaging. Policy provided to all new employees.*

Statement of compliance with Code of Conduct and fraud policies signed annually:

*This is scheduled to be completed at the beginning of the financial year, in line with the new organisational structure and newly created positions with contracts effective from 1 July 2016. All remaining staff will be requested to re-familiarise themselves with the document before re-signing.*

**2018 Response –** [re-sign of fraud policy] *Scheduled to be processed in December 2018*.

Fraud control incorporated into performance management system:

*The General Manager and Manager of Civil Works & Town Maintenance are both fully aware of the responsibility for frauds occurring within the department in which they manage. The awareness is not limited to managers as Council's Coordinators are also aware of the responsibility and reporting requirements.*

***2018 Response –*** *The above statement remains current.*

Internal controls communicated effectively:

*Communication is provided to employees through team leader meetings (fortnightly), toolbox meetings (monthly all staff) and staff meetings (monthly or bi-monthly all indoor staff) and also re-enforced via information sessions as conducted according to management needs.*

*2018 Response* – [As above]

FINDING

75.    The Council stated it has taken action to address the areas of non-compliance regarding communication of the anti-fraud framework.

76.    The Committee notes the proactive engagement with the Integrity Commission.

2.150   Encouragement of the reporting of fraud:

**Table 6.3: WCC — is reporting of fraud encouraged?**

| Audit test | Rating |
|---|---|
| Documented procedure for reporting suspicions? | ✓ |
| Procedures for dealing with suspected fraud? | ✓ |
| Fraud Control Officer or alternate line of reporting? | ✓ |
| Employees would report a suspected fraud? (from staff survey) | ✓ |
| Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey) | P[1] |

[1] One third of employees interviewed stated that council support would depend on who had committed the fraud.

2.151   The Council provided the following response:

Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey):

*The work culture at Council has improved significantly with a new General Manager and Civil Works Manager appointed during the 2014/15*

*financial year. I am confident that all staff trust the process within Council and would feel comfortable in reporting suspected fraud.*

2.152 The Committee wrote to the Council seeking evidence of staff confidence that Council would support them if they reported suspected fraudulent activity.

2.153 The Council responded:

> *In April 2019, an Organisational Cultural Survey was conducted which included questions for staff to respond to aligning to reporting any matters in the workplace to the General Manager.*
>
> *In addition to the above the General Manager has recently issued to all staff a prepaid envelope encouraging staff to contact him directly to discuss any concerns in confidence or to utilise this anonymous method.*
>
> *Ongoing messaging relating to fraud controls and reporting remain a priority. The Whistle Blower Policy is also provided to new staff as an additional appendix attached to the handbook.*

FINDING

77. The Council stated it is confident it has addressed the areas of partial compliance regarding reporting of fraud being encouraged within the organisation.

2.154   Miscellaneous fraud control measures:

**Table 6.4: WCC — miscellaneous fraud control measures**

| Audit test | Rating |
|---|---|
| Council has a risk management process that includes fraud risk and relevant control measures | ✗ |
| Internal audit function | ✗ |
| Pre-employment checks of police record, background, qualifications | ✓ |
| Enforced leave and job rotation | ✗ |
| Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)? | ✗ |
| Fraud-related insurance cover | ✓ |

2.155   The Council provided the following response:

Council has a risk management process that includes fraud risk and relevant control measures:

> *Council has adopted all relevant policies and procedures and educates staff accordingly.*
>
> ***2018 Response –*** [As above]*.*

Internal Audit function:

> *Council adopted an Audit Panel structure and operating charter report at its August 2015 meeting with the appointment of the panel to be completed before the end of the current financial year.*
>
> ***2018 Response –*** *Active Audit Panel – last meeting held Thursday 18 October 2018.*

Enforced leave and job rotation:

> *Enforced leave is not something our Council has to exercise due to regular leave intervals taken by key staff.  Other staff are trained and appointed as an acting officer for the required period.*
>
> *WCC is a small Council with task rotations a common practice.*

*2018 Response – Very similar, WCC will write to staff with excessive leave. WCC has appointed new staff for a variety of roles since Audit, no longer an issue.*

Fraud detection activity by management (e/g computer-assisted data mining, trend analysis):

*All applicable software applications and scripts are conducted by our contracted IT.*

*Electronic banking is conducted by using a NetLock USB and token, which is registered to a specific computer hard drive. The NetLock USB cannot be used at any other terminal. The NetLock device was introduced and mandatory by CBA.*

*2018 Response – [As above].*

2.156 The Committee wrote to the Council seeking clarification of the approach taken toward job rotation or the mitigation of the risk associated with the inability to undertake job rotation.

2.157 The Council responded:

*West Coast Council has been proactive with job rotation and this has been made possible by a new system upgrade used in particular for our finance management.*

*A new staff member is currently being trained in payroll and creditors.*

*Given a small Council and the confidentiality involved in finance we do limit access and such job rotation.*

*Password controls and access restrictions are in place also.*

*Based on the above, I am comfortable with our processes and procedures.*

FINDING

78. The Council stated action has been taken to address the areas of non-compliance regarding miscellaneous fraud control measures.

2.158    Internal controls around assets:

**Table 6.5: WCC — internal control: assets**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| building access permissions | ✓ |
| physical security (e.g. alarms, locks) | P[1] |
| portable and attractive items register | P[2] |
| movements of equipment accounted for | |
| termination checklist (including keys, personal use items) | ✓ |
| declare and record conflicts of interest, gifts | ✗ |
| Monitoring controls: | |
| stocktakes | ✗[3] |
| acquisition and disposal reviews | P[4] |

[1] No security alarms existed for depots and equipment buildings and there were deficiencies with fencing and lighting.

[2] A register existed but auditors had difficulty in finding two randomly selected items.

[3] There is no formal stocktake process although some informal reviews are performed.

[4] A disposal procedure had been developed but had not yet been used for subsequently disposed items.

2.159    The Council provided the following response:

Physical security (e.g alarms & locks):

*Alarms and additional lighting are yet to be installed at depots. Fencing has been repaired at the Zeehan Depot as highlighted in audit.  Location of a 'super depot' is currently being assessed, with resources to be applied accordingly once determined.*

***2018 Response** – New security gate with entry pin constructed in 2017 in Zeehan. Additional lighting also installed.*

Portable and attractive items register:

*Register not yet complete. To date nothing has triggered the formalisation of one. All portable devices are logged on the asset register. Mobile phones provided for work purposes are under the control of the Corporate & Strategic Services Coordinator. The termination checklist also covers items of interest.*

***2018 Response*** *– Completed, also used for insurance purposes.*

Movements of equipment accounted for:

*It is the responsibility of the Team Leaders to monitor the usage of equipment to be used on worksites. I am confident that a repeat of the testing would not show anomalies as it did in 2013.*

***2018 Response*** *– Not applicable*

Declare and record conflict of interest, gifts:

*Council has a zero tolerance for the acceptance of gifts. Should a gift not be easily declined it must be recorded on a log sheet. The item is then placed in a basket to be raffled at the end of year. Profits provided to a local charity. The Advocate noted WCC as having the toughest policy. Official record book is taken to each Council meeting for recording conflicts.*

***2018 Response*** *– Remains as tight and registers completed. New staff must also declare additional paid work and this is a process conducted yearly to ensure no conflict exists.*

Stocktakes:

*Annual stocktakes are completed at the central mechanical workshop and stock checks are undertaken by the mechanic regularly. Stock control for each depot is the responsibility of the Team Leader. A secure store room is available at each depot and monitored accordingly.*

***2018 Response*** *– No additional response required.*

Acquisitions and disposal reviews:

> *Council completed a disposal in accordance with the procedure in 2014. The completed form is then provided to the accountant for removal from the asset register.*
>
> ***2018 Response*** *– Process remains the same.*

2.160 The Committee wrote to the Auditor-General to seek his view on the response made by the Council to issues identified by him in the areas of movements of equipment accounted for, declare and record conflict of interest, gifts, and stocktakes.

2.161 The Auditor-General stated:

Movement of Equipment accounted for:

> *Whilst it is appropriate Team Leaders monitor the usage of equipment on worksites, the existence and location of assets should be confirmed on a periodic basis. Equipment location should be updated in the asset register where required.*

Declare and record conflicts of interest, gifts:

> *The Local Government Act 1993 (LGA) Part 5A requires a gifts and donations register be maintained by the general manager for councillors. The Local Government (General) Regulations 2015 (Regulations) provide details of what gifts and donations need to be reported.*
>
> *There is no such requirement in the LGA for council employees though from the Council's response, the policy has been extended to cover staff.*
>
> *Council's zero tolerance for acceptance of gifts and process for dealing with gifts not easily declined exceed the requirements of the LGA.*
>
> *Council could consider the following to further enhance its policy and procedures:*
>
> *• A 2015 investigation by the Integrity Commission into policies practices and procedures relating to receiving and declaring gifts and benefits*

*stated gifts should be either donated to charity or put on display. Council may wish to consider this alternative approach.*

*• The Integrity Commission recommended declined gifts also be recorded in the gift register.*

*Council should consider extending their staff declaration policy by requiring staff to declare all paid, voluntary or honorary work undertaken outside of their Council employment. This is because employees can equally be conflicted, whether undertaking paid or unpaid roles outside of their Council employment.*

FINDING

79. The Council stated action has been taken to address the areas of partial or non-compliance regarding internal controls around assets.

80. The Council should update equipment location in the asset register where required.

81. The Council stated it has a zero tolerance gift policy but receives gifts in certain circumstances.

82. The current method (raffling) of disposal of gifts received raised further questions about the management of gifts. The Integrity Commission stated that gifts should be donated to charity or put on display.

2.162    Internal controls around payments:

**Table 6.8: WCC — internal control: payments**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| check of supporting documents | ✓ |
| certification and authorisation | ✓ |
| bank signatories (access to accounts, electronic transfers) | ✓ |
| segregation of duties (including system access restrictions) | ✓ |
| termination checklist (return of credit cards, removal of system access) | ✓ |
| Monitoring controls: | |
| bank reconciliations | ✓ |
| supplier master file reviews | ✗[1] |
| budgetary oversight and review of large payments | ✓ |
| reconciliation of credit card statements | ✓ |

[1] There was no evidence that changes to the supplier master file had been reviewed.

2.163    The Council provided the following response:

Supplier master file review:

> *Supplier master file changes is conducted in Navision to record changes within creditors and payroll.*
>
> ***2018 Response*** *– Still conducted.*

2.164   The Committee wrote to Council seeking confirmation that a review of changes made to the supplier master file is undertaken regularly.

2.165    The Council responded:

> *The extraction of the supplier master file is conducted monthly, this forms a part of the end of month procedure conducted by our Contract Accountant.*

FINDING

83.    The Council stated appropriate action is taken by its Contract Accountant to review the supplier master file each month.

2.166    Internal controls around information technology:

**Table 6.10: WCC — internal control: IT**

| Internal controls | Rating |
|---|---|
| Preventive controls: | |
| ICT security policy | ✘ |
| Password security (unique userIDs, password strength, time-out) | P[1] |
| system access restrictions | ✓ |
| termination checklist (system access) | ✓ |
| physical system security (of servers) | ✓ |
| Monitoring controls: | |
| back-up quality reviews | P[2] |
| server access automatically logged and subject to periodic review | P[3] |

[1] We were unable to confirm that the time-out feature was applied to all employees.

[2] Backups are taken home by relevant employees. We did not consider that to be a reliable control. In addition, the backup procedures are not tested.

[3] Server access is logged but logs are not reviewed.

2.167    The Council provided the following response:

ICT security policy:

> *A formal policy is yet to be established. An overarching policy will set out requirements such as lock-out screen times.*
>
> ***2018 Response** – Not an ICT direct policy, WCC has a Media & Communications Policy.*
>
> *http://www.westcoast.tas.gov.au/webdata/resources/files/WCC012%20*
>
> *-*
>
> *%20Social%20Media%20&%20Communications%20Devices%20APPRO VED%20December%202016.pdf*

Password security (unique userIDs, password strength, time-out):

> *All users have varied access to file paths depending on role requirements. Each user has unique passwords and has the ability to change passwords as frequently as the user desires. Passwords are not recorded. Staff screen lock computers upon exiting the workspace.*
>
> ***2018 Response** – [As above].*

Back-up quality reviews:

> *Back up tapes have been used to retrieve data since the original audit. The process was completed by Council's contract IT service provider. A disaster recovery service has since been installed since the audit, this server is located in the Memorial Hall, Queenstown in a secure locked room with key access. The key is held by the Corporate & Strategic Services Coordinator, whom is responsible for the IT function of Council. Staff are no longer required to take portable storage tapes home.*
>
> ***2018 Response** - [As above].*

Server access automatically logged and subject to review:

> *Server review is conducted daily – hacker check is also conducted by our contract IT provider. Limited staff have VPN access. Access to financial*

*programs such as Navision must have the required framework loaded on the PC to enable user functions.*

***2018 Response*** *– [As above].*

2.168  The Committee wrote seeking further information about the Council's intention to develop an ICT Policy.

2.169  The Council responded:

> *An ICT policy is yet to be finalised, engagement with our IT specialists has been undertaken to ensure we create a policy that best reflects the current needs and future needs of Council.*

FINDING

84.  The Council has engaged an IT specialist to address the recommendation to develop an ICT policy which is yet to be finalised.