



**CENTRAL TABLELANDS ALLIANCE
COUNCILS**

Consolidated Report:

**PROCUREMENT, CONTRACTS AND
PROJECT MANAGEMENT**

DRAFT APRIL 2011

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EXECUTIVE SUMMARY

INTRODUCTION

IAB Services (IAB) was engaged to carry out a high-level review of procurement, contracts management and major projects management processes as part of the Approved Internal Audit Plans of the three (3) Central Tablelands Alliance (CTA) Councils.

OBJECTIVES

The objectives of the reviews were to assess the efficiency and effectiveness of controls operating over procurement, contracts and project management and to ensure that Councils are receiving best value for their spend, deliverables meet business needs and Council's interests are protected at all times.

METHODOLOGY AND SCOPE

The methodology adopted for the reviews was risk based and involved testing for compliance with Councils' policies and approved procedures, the adequacy and currency of those policies and procedures and operational probity.

The scope of the reviews included consideration of:

- Legislative compliance with the Local Government Act 1993, the Local Government (Tendering) Regulations 1999, DLG Tendering Guidelines, the Local Government (Financial Management) Regulations 1999 and local purchasing policy and procedures.
- Effectiveness of processes in place including contracts, supplier panels and supply agreements, taking into account associated risks.
- Adequacy of contract preparation, management and payment and accounting for contractual liability.
- Evaluating controls to mitigate the risks of payments made without due inspection, contract variations not adequately supported/reviewed and any contingencies used as a matter of course.
- A strategic review of project management procedures and reporting across Councils against best practice.
- Sample testing of purchase orders, supplier invoices, contracts and projects aimed at determining what lessons remain to be learnt.
- Assessment of project performance to date versus budget, design process, cost monitoring, management of suppliers and compliance with OHS practices to ensure a safe workplace.
- Review of any opportunities to improve processes and/or reduce risks.

SUMMARY OF FINDINGS

As a value adding / benchmarking exercise, we have prepared a consolidated report of our findings across the three (3) Councils. The following matters are relevant to the content of this report:

1. Our focus in this consolidated report is on observations that, in our view, present ongoing risks in Council operations – consequently, we have not commented on areas that we found compliant or reflecting satisfactory outcomes;
2. While the observations are listed as they were reported to the individual Councils, they are relevant to all three (3) Councils in various degrees;
3. As a general observation, we noted that all Councils are dependent significantly on the personal integrity of staff and their personal expertise – supervisory oversight, together with the extent and currency of promulgated policies and procedures warrant management attention to various degrees;
4. Internal controls and consistency of processes are softened by decentralizing of processes that could be managed in a centralized environment, incompatible responsibilities resting with individual officers (in the one officer) with financial delegation and procedural guidelines that warrant timely revision.

Our findings in the following table present a valuable tool for the Management of Councils to compare and contrast the current status of their procurement etc management environments.

In respect of Procurement Management, Councils may consider centralising procedural or supervisory controls over these activities and considering the following “core principles” in the development of procurement policy and systems:

- No procurement without committed funds;
- No funds committed without Purchase Order;
- No Purchase Order without Purchase Requisition;
- No Purchase Requisition without established and confirmed need; and
- No payment without Invoice and Purchase Order reference number and Delivery Note or statement of satisfactory (and full) delivery, held by A/P (Finance) before payment.

Legitimate permitted exceptions to the above five (5) points should be detailed and promulgated in Councils’ procurement policies and procedures for the guidance of all involved Councils’ staff. Procurement, contract management and project management risks should be defined by Councils and should drive approved policies and procedures.

ACCOUNTABILITY AND RESPONSIBILITY

IAB Services takes responsibility for this report, which is prepared on the basis of the limitations set out below.

The matters raised in this consolidated report are based on our reports to the individual Councils and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Further, they have been “normalised” in their risk ratings to reflect additional considerations following management responses to our draft reports received prior to the issue of our final reports. Councils should assess recommendations for improvements for their full commercial and operational impact before they are implemented.

We are available to provide additional information and/or advice on individual recommendations should Councils consider this of value.

The table on the following pages list our principal observations arising from the audits carried out.

This report is confidential, has been prepared solely for the use of the participating Councils, and ownership of the report and any attachments lies with those organisations. It is the responsibility of those organisations to determine if they wish to release this report, in whole or in part. However, this should not occur without our prior written consent.

No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

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CENTRAL TABLELANDS ALLIANCE
PROCUREMENT, CONTRACTS AND PROJECT MANAGEMENT
CONSOLIDATED FINDINGS TABLE

AUDIT FINDING	A	B	C	GENERAL COMMENT
1. Council's Policies and Procedures require timely update; having passed their programmed review date	M	M	M	Review Council Purchasing Policy and Procedures, including amendment/tracking history
2. Delegated officers approve their own procurement (proposals) within their financial delegation	H	H	H	Separate procurement "requisitioning" and "approval" functions in the same officer
3. Procurement and contract management activities would benefit from a reorganisation and centralisation	M	M		Consider centralizing procurement and contract management authorities and oversight
4. Need for Council to enforce tender (and quotation) requirements in the spirit of current legislation			M	Ensure that all tender and quotations policy requirements are rigorously enforced
5. Delegations List may warrant review; "No Limit" financial delegations are misleading regarding authority levels			M	Review all financial delegations for relevance; express in terms of the "upper limit" of authority
6. All Purchase Orders should be system issued (minor exceptions) to ensure financial commitment before purchase	M	M	M	Ensure that all Purchase Orders are issued by Council Finance System; exceptions by approval
7. Legitimate or permitted exceptions to systems-issued Purchase Orders have not been defined			M	These exceptions should be detailed in Council's procurement policies and procedures
8. Procurement, contracts and projects management activities are not standardised	M		M	Standardise these procedures in the interest of consistency of effort
9. Use of delegation by officers not subject to a personal, signed, undertaking of compliant use	M			Consider financial delegation authorities subject to signed compliance undertakings
10.(i) Council procurement policy deficient in respect of supervisory responsibility effectiveness	M		H	Develop policy to ensure contracting activities are under centralised compliance oversight
10.(ii) Council procurement policy deficient in respect of supervisory responsibility effectiveness		M	H	Repeated breaches of policy and approved procedures, should result in disciplinary action
11. Delegations are not up-to-date; may benefit from review and update	M			Ensure delegations to purchase goods and services are up to date

AUDIT FINDING	A	B	C	GENERAL COMMENT
13. Purchase Orders being prepared after delivery of supply or receipt of supplier's invoice	M	M		Introduce mandatory oversight responsibilities for supervisory and management staff
14. Suppliers quoting a Purchase Order Number on their invoices not enforced rigorously	M		M	Encourage suppliers of goods and services to supply only against official Council Purchase Orders
15. Reverse of Purchase Orders do not inform suppliers of Council's Conditions of Purchase / Procurement			M	Reverse of the PO should inform suppliers of Council's Conditions of Procurement
16. Reverse of Purchase Orders do not inform suppliers of Council's Conditions of Purchase / Procurement			M	Face of PO should draw suppliers' attention to these Conditions and Requirements
17. No enforced policy for invoices to be sent to Finance for registration and forwarding to originator	M		M	Introduce staff training / refresher programs and remind suppliers of Council policy
18. No central responsibility to monitor and enforce the requirements of Council's Purchasing Policy	M			Establish centralised purchasing and contracts authority and enforce policy compliance
19. Financial systems not implemented to record quotes/tenders to assist policy compliance supervisory oversight	M			As far as practicable, financial systems should record quotes / tenders history
20 In-depth internal audit of contracts management during the current strategic audit period is warranted	M			Consider an in-depth internal audit of contracts management activities
21. Council does not have detailed procedural guidelines for the various stages of contracts management	M	L	M	Develop concise procedural guidelines for all stages of the contract management process
22. Council does not maintain an up-to-date Contracts Register		M		Establish a Contracts Register, as part of the Accounting or Document Management System
23. Weightings for the detailed criteria in Tender information is made public to tenderers	L			Council should consider weightings for the detailed tender criteria as "confidential"
24. References to Acts and Regulations in policies and procedures should be avoided, except as footnotes	L			These should be replaced with plain-language interpretations of compliance requirements
25. Contract file documentation in respect of an agreement held in Records Section was incomplete	M			Records Section review all "Legals" files to ensure that they are intact and securely held
26. Advised that quotations and tender requests are not favoured in the local trades supplier community		M		Encourage local service partners to participate in Council's competitive tender processes
27. Advised that quotations and tender requests requirements not possible in local trades supplier community			M	Document all decisions (and the rationale) to favour one supplier exclusively

AUDIT FINDING	A	B	C	GENERAL COMMENT
28. Council does not have the benefit of an electronic document management system (EDMS)			M	EDMS should receive early attention with view to upgrade and staffing
29. Sound project management effort through the engagement of a consultant to manage the project	L			Council should consider an in-depth internal audit of project management activities
20. Major Project Management Procedures annual review was due but not completed at time of the audit	L			Review for currency in light of on-going project management experience and requirements
31. Project completion conditions, imposed on Council funding conditions, are not being adhered to			M	Project management and progress reporting methodology should be updated to ensure compliance
32. A concise project management “tool-kit” for the guidance of project managers has not been developed	L		M	Develop a concise project management “tool-kit” for the guidance of project managers
33. Procurement System Upgrade/Update Project was in progress at the time of our review		M	M	Review current IT systems support arrangements in terms of the quality of support
34. Council Contract Files should be filed centrally and securely with their contents prescribed in D&RM policy		M	H	Consider comprehensive IT Systems support during the Update / Upgrade Project
35. Council Contract Files should be filed centrally and securely with their contents prescribed in Documents and Records Management Policy			M	Assess Document and Records Management requirements across all areas of Council’s operations

LEGEND

H	High	High risk, urgent management attention is needed
M	Moderate	Moderate risk, management responsibility must be specified
L	Low	Low risk, manage by routine procedures
	N/A	Not assessed/not considered not significant by the relevant Council