

PERFORMANCE AUDIT: LOCAL GOVERNMENT PROCUREMENT
SHIRE OF DALWALLINU FINDINGS



**Performance Audit: Local Government Procurement
Undertaken by the Office of the Auditor General**

Tabled in Parliament October 2018

SIGNIFICANT ISSUES

1. Access to bank accounts outside delegated authority (Payments)

Implication

Increased risk of unauthorised access which could result in financial loss to the LG.

Finding

Two staff were provided access to the LG's bank account without appropriate delegated authority.

This arose because the review of the delegations register in 2017 did not include these positions for approval by Council. We were advised that Council adopted the amended policy that included the two positions in March 2017. However, due to an oversight, the Register of Delegations was not updated to reflect the Policy.

This issue was fixed in March 2018. However, that means that two (2) staff have had access to the bank account for over a year, without Council delegation to do so. We were advised that one officer did not success the bank account at all and the other officer was required to access it once due to the Chief Executive Officer being unavailable.

OAG Recommendation

Any changes to bank account access should be clearly demonstrated and approved by Council, prior to permissions being granted.

Shire of Dalwallinu Comment

Council adopted the amended policy that included the manager Works & Services & Manager Planning & Development in 2017. However, due to an oversight, the Register of Delegations was not updated to reflect the Policy. One officer did not success the bank account at all and the other officer was required to access it once due to the Chief Executive Officer being unavailable.

Council were aware of the policy amendment where the two Managers were included, however, we acknowledge that the Register of Delegations was not updated in line with the amended policy at the same time.

2. Failure to tender in line with regulatory requirements and staff entered into a contract outside of their delegated authority

Implication

This is a breach of the *Local Government (Functions and General) Regulations 1996* and Council delegations around entering into contracts. There is significant risk that the LG did not achieve value for money as they did not go to public tender. Entering into a contract outside of delegated authority also increases the risk that unauthorised funds will be spent.

Finding

Purchasing sample 17, related to a progress payment for a parent contract worth over \$600,000. The parent contract was entered into by a staff member without delegated authority to do so. A contract of this value should have gone to tender as per the *Local Government (Functions and General) Regulations 1996*.

OAG Recommendation

Ensure all staff are familiar with the purchasing and tendering thresholds, and their level of delegated authority.

Shire of Dalwallinu Comment

The staff member responsible for this is no longer an employee of the Shire of Dalwallinu.

All current employees are fully aware of their purchasing thresholds and when calling for tenders for purchases is required.

This finding related to Core managing the first claim of WANDRRA.

MODERATE ISSUES

3. Insufficient information regarding decisions on awarding a tender

Implication

Incorrect tendering processes opens the LG to risks relating to breaching compliance with tendering regulations.

Finding

The tender processes for tender sample 1a and 1b do not appear to have followed correct tendering procedures. Separate contracts were awarded for the supply and delivery of new equipment and trade in for old equipment. Our review of the tender documents included the trade in submissions would not have been compliant with the original tender specifications.

OAG Recommendation

Review tendering requirements and the details included in the RFT documentation in the future to ensure the process supports the types of procurement decisions needed.

Shire of Dalwallinu Comment

The staff member responsible for this is no longer an employee of the Shire of Dalwallinu.

All tender documents are reviewed by at least three staff to ensure compliance with original tender specifications.

This finding related to the Grader where the tender documentation stated the grader would be traded but it was sold separately therefore not complying with tender documents.

4. Staff failing to seek or record quotes as required by SoD policy

Implication

LGs set their own thresholds around quotation requirements for procurement, which are then signed off by Council. Failure to ensure compliance with the LG's own policies increases the likelihood of improper purchases and misappropriation of funds.

Finding

We found in 6 of 12 purchases (purchasing sample 6,7,8,10,17 and 18) the staff member failed to seek or failed to record the number of quotes as required by LG policy:

- Purchasing sample 6,7,8 and 10 - \$10,001 to \$39,999 obtain at least 2 verbal or written quotations
- Purchasing sample 18 - \$40,000 to \$149,999 obtain at least 3 written quotations
- Purchasing sample 17 - \$150,000 and above, conduct a public tender process

OAG Recommendation

SoD should review its processes for ensuring that sufficient quotes are being sought and recorded for purchases.

Shire of Dalwallinu Comment

Emails have been sent to all staff with authority to create purchase orders, advising that they are to adhere to Council's purchasing policy. Creditors Officer has been directed to return all purchase orders back to the Officer if the supporting documentation is not attached. There has been a vast improvement in this area.

5. Checking price calculations and accuracy of quotations

Implication

Insufficient quote information and failing to check calculations prior to purchasing has resulted in the LG not receiving the best value for money.

Finding

For purchasing sample 18, an error in SoD calculations resulted in the LG accepting a quote that was \$9K higher than the alternative supplier.

OAG Recommendation

Staff should request quotes for total numbers as bulk discounts may apply and it provides a more transparent record of what is being quoted on.

Staff should check if quoted items are inclusive or exclusive of GST

Shire of Dalwallinu Comment

Staff have been advised to seek individual and bulk process for items with a large volume.

Staff who are comparing prices of orders have been advised to check if items are GST inclusive or exclusive.

Verbal quotation forms have a requirement for the Officer to explain why that supplier was chosen.

This finding related to purchasing of concrete pipes and one quote included GST and the other didn't.

6. Purchase orders not raised for a number of items

Implication

Purchase orders support monitoring of commitments against Council approved budgets. Without purchase orders, LG's are more likely to exceed budgeted amounts. They also provide transparency around the use of delegated authority to commit the LG to expenditure.

Finding

We found that 2 of 20 purchasing samples had no purchase orders (samples 2 and 17):

- Purchase sample 2 – relates to debt recovery service
- Purchase sample 17 – WANDRRA claim

OAG Recommendation

SoD should consider updating its purchasing policy to specify items that are exempt from the purchase order requirements, such as utility payments. This would provide Council an opportunity to consider if they agree with these decisions and provide clarity for staff.

Shire of Dalwallinu Comment

It is not uncommon in local government for purchase orders not to be raised for debt collection and utilities. However, we have taken note and this financial year raised an annual PO for debt collection based on the amount allocated in the budget.

Noted that no purchase order was completed for Payment sample 17. Employees responsible for this no longer work at the SoD and processes have since changed.

This finding related to Core Business.

7. Reconciliations not performed or not recorded prior to invoice payment

Implication

In the absence of adequate review of supplier invoices before payment, there is an increased risk of incorrect and improper payments being made, without detection.

Finding

We were unable to reconcile invoices to the supporting documentation for 2 of the 20 purchasing samples we reviewed (purchasing samples 3 and 5):

- Purchasing sample 3 – significant increase in utility charge from the previous period and the same period the prior year. No documentation to indicate if this was checked prior to payment.
- Purchasing sample 5 – we were unable to reconcile the invoices to the purchase order or quote

OAG Recommendation

SoD should remind staff of their responsibilities when receiving goods, and approving invoices for payment. These responsibilities include checking invoices against quotes and purchase orders to ensure all work has been completed, goods received and the LG has been charged correctly.

Shire of Dalwallinu Comment

Any significant increases in usage is always investigated, though we acknowledge that it wasn't always noted on the invoice.

Staff have been reminded to check and verify invoices for payment.

A new procedure has been put in place for staff if they note utility usage higher from one account to the next, to make a note of the reason and why they are approving for payment. This is also the existing procedure if an invoice is higher than the purchase order amount.

This finding related to increased usage of water and electricity.

8. Tender evaluation panel not established in line with LG policy

Implication

This increases the risk of inappropriate decision making when awarding tenders, and decreases transparency of LG decision making.

Finding

We found the following issues:

- There is no record for any of our tender samples that the evaluation panel was established prior to advertising the tender
- In 4 samples (tender samples 1a, 1b, 3 and 4) it was unclear from the documentation provided who was on the evaluation panels
- Tender sample 5 – only had an evaluation panel of 2 members. The purchasing policy requires a minimum of 3 panel members. One panel member was a consultant engaged by the LG.

OAG Recommendation

Ensure all tender panels are established in line with the Purchasing Policy.

Where a consultant is engaged to provide expertise, consider including them as an additional member to the minimum number required by policy.

Shire of Dalwallinu Comment

All recent tender panels are established in line with the Purchasing Policy. Documentation listing the selection panel is included in the tender register.

A recent tender for roadworks had three staff members plus a consultant.

9. Recording conflict of interest declarations (Tendering)

Implication

Failure to record declarations increases the risk that real or perceived conflicts of interest will go unnoticed and unmanaged. This increases the risk of inappropriate decision making going undetected when awarding tenders, and decreases transparency of LG decision making.

Finding

We found issues relating to the recording of conflict of interest declarations for the following:

Tender sample 1a and 1b – no declarations were included with the evaluation paperwork

Tender sample 2a and 2b – 4 signatures recorded on a single declaration attached to a summary assessment sheet. Panel members should complete individual declarations prior to completing their individual evaluations of submissions

Tender sample 3 – no declarations were included with the evaluation paperwork

We also found that there was minimal guidance around declaring conflicts of interest. SoD could improve this guidance by including more information on what constitutes a conflict and real versus perceived conflicts of interest.

OAG Recommendation

SoD should ensure all documentation relating to conflicts of interest during the tender process are recorded.

SoD should provide additional guidance to all staff involved in tender evaluation panels of their obligations and responsibilities relating to declaring and managing any real or potential conflicts of interest.

Shire of Dalwallinu Comment

Cannot make comment on samples 1-4 as was prior to commencement of Chief Executive Officer.

Processes have changed and all tender documentation is filed in the same place. Individual declarations have now been included for the selection panel rather than the one declaration used previously.

10. Entering into a contract outside of delegated authority

Implication

There is an increased risk that staff without appropriate delegations will make unauthorised purchases or commit to invalid use of LG funds.

Finding

We found that the contract for tender sample 4 was signed by the Chief Executive Officer. The contract was for a 3 year schedule of rates (purchase sample 19, has a purchase order relating to this contract for over \$500,000). However, the Chief Executive Officer only has a delegation limit of \$150,000 for contracts.

Council did award the tender to the contractor, but did not delegate the authority to the Chief Executive Officer to sign the contract on Council's behalf. Other tender samples we reviewed where individual contracts were over the Chief Executive Officer's limit, had specific Council approval for the Chief Executive Officer to sign the contract.

OAG Recommendation

Ensure Council include a delegation to the Chief Executive Officer where contracts exceed the amount outlined in the delegation register.

Shire of Dalwallinu Comment

Since July 17, where the contract exceeds the Chief Executive Officer's delegation (up to \$150K) we have included a delegation to the Chief Executive Officer to enter into a contract in the Council resolution.

This finding related to Richardson Park.

MINOR ISSUES

11. Include review dates in Purchasing Policy

Implication

Documented review dates support transparency around when policies are due for review, and if those dates are missed. Without regular review LGs risk missing changes to legislative requirements that need to be reflect in policy.

Finding

SoD's Procurement Policy does not include information on the date when the policy is to be next reviewed and approved.

OAG Recommendation

SoD to consider updating version control records in its policy documents to last and planned review dates.

Shire of Dalwallinu Comment

It is common practice for the Shire of Dalwallinu to review its Register of Policies annually.

However, comments have been taken on board and the control records in the Register have been amended to include a review date.

12. Verification of who is receiving goods and approving invoices for payment

Implication

Without a clear record of who is authorising payment of an invoice there is reduced transparency to support checks of approval against delegated authority. This increases the risk of inappropriate payments and reduces the effectiveness of governance oversight.

Finding

For all 19 invoices we examined, the signatures recorded on the invoice were illegible. Based on the invoice information alone, we were unable to identify who had received the goods and who had approved the purchase for payment. SoD provided us with additional information confirming who had signed the invoices.

We also found that, for the majority of our purchasing same, SoD's process allowed staff without delegated authority to approve invoices for payment. We were informed that a process change now requires a manager with relevant delegated authority to sign off on the 'Recommended for Payment' section of the invoice stamp.

OAG Recommendation

The SoD should require staff to document their name and position when authorising invoices for payment.

Ensure that any Register of Signatures is regularly reviewed and endorsed by the Chief Executive Officer.

Shire of Dalwallinu Comment

A Register of Signatures has been developed. This has the Officer Name, signature and position.

Staff have been reminded that only those with delegated authority can approve invoices for payment.

Chief Executive Officer reviews all payments that have been authorised by Officers to ensure compliance with delegated authority.

13. Understanding of regulatory requirements regarding the availability of the tender register for public inspection (Tendering)

Implication

If staff are unaware of the requirement to make the tender register available to the public, they may refuse a request from the public to review the register.

Finding

We found that staff were not aware of the regulatory requirement in *Local Government (Functions and General) Regulations 1996, s17(1)*, that the tender register needs to be available for public review (on request).

OAG Recommendation

Ensure staff are aware of all regulatory requirements relating to the tender register.

Shire of Dalwallinu Comment

All staff involved in tenders have now been made aware of the regulatory requirements relating to the tender register.

Chief Executive Officer has conducted training with the Officer responsible for tenders.

14. Administrative issues in tendering documentation

Implication

Complete records support the LG and Council to ensure tenders are completed in line with regulatory requirements and LG policy. Incorrect or incomplete records reduce transparency and assurance.

Finding

We identified the following issues with information relating to our tender sample:

- Tender samples 1a, 1b, 2a, 2b, 4 and 5 – copies of advertisements do not evidence the publication they appeared in. Further, ads for sample 1a, 1b, 2a, 3,4 and 5 do not show evidence of the date of the publication.
- Tender sample 3 did not have the evaluation criteria approved by Council. All other tenders had criteria approved by Council.
- Tender sample 1a, 1b, 2a, 2b and 5 0 had generally poor records of communication with tenderers.

We also found issues in the recording of individual assessment worksheets for all tenders we reviewed:

Tender samples 1a, 1b, 3 and 4 – individual assessment sheets were not retained, only summary Council reports

Tender samples 2a, 2b and 5 – individual assessment sheets provide scores only, with no commentary to justify the rating. It is good practice to include some justification to support the scores.

Assessors did not always clearly make who was filling out the assessment sheets.

SoD staff have informed us that they have since updated their procedures to address the above issues.

OAG Recommendation

Remind staff involved in tendering of the importance of maintaining an accurate record of all steps in the process. Review procedural updates to determine if they address all issues outlined above.

Shire of Dalwallinu Comment

The above comments are justified and have come about due to lack of understanding of the tender process and no training provided to the Officer responsible for tender register.

Procedures have been amended since commencement of current CEO that have addressed the above findings.

A checklist has been developed which requires completion for each tender.

15. Tender submission documentation (Tendering)

Implication

Unclear instructions around tender submissions risk a breach in the regulated tender opening process.

Finding

We found that there was no procedure in place for managing tender submission received electronically.

OAG Recommendation

SoD should establish a process for the handling of tender submissions received via email to reduce the potential for breaching tender opening regulations.

Shire of Dalwallinu Comment

A separate email address has been set up to receive tender submissions. Access to this email account is not granted from our IT support company until the tender submission period has closed.

CONFIDENTIAL

16. Provision of training

Implication

Training is crucial to support compliance with LG policies and regulatory requirements.

Finding

The SoD have 6 staff that are able to approve purchase orders and invoices. The issues identified in this management letter represent non-compliance with the LGs own policies. This indicated that it would be beneficial to ensure staff with delegated approval regularly receive structured training or are reminded of their responsibilities.

OAG Recommendation

Ensure all staff involved in the purchasing and tender process are aware of their responsibilities and have a good understanding of the LG purchasing policies.

Shire of Dalwallinu Comment

Staff are regularly reminded of their responsibilities with regards to purchasing.

Any changes to Policies or Delegations are communicated immediately after Council have adopted them.

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AUDIT CONCLUSION

All eight (8) LGs we reviewed had shortcomings in their procurement practices, most related to weak procurement controls, processes and documentation for tendering, purchase orders and approvals, and reviewing invoices and payment.

LGs varied in how well they complied with legislation and their own procurement policies. While LGs' policies broadly met regulatory requirements, they need to do more to monitor procurement controls and the effectiveness of processes. We saw no notable difference in the effectiveness of controls between the regional and metropolitan, and the small and large LGs we examined.

Having policies and controls that are appropriate, and monitoring their effectiveness is essential if LGs, and the ratepayers that they serve, are to have confidence in LG procurement activities. Procurement practices that focus solely on minimum compliance with legislation are unlikely to provide LGs with the oversight and control they need to address risks and ensure value for money in their procurement.

The issues identified in this audit are relatively simple to fix. By addressing them, governance of this important LG function can be significantly strengthened.

87 detailed findings were reported across the 8 LGs with 13 of these rated as significant, 28 as moderate and 36 as minor.

The areas of focus were:

Policy	Conflict of interest declarations
Training	Purchase orders and approvals
Seeking quotes	Segregation of duties
Tendering	Reviewing invoices and payment

The following local government were visited and reviewed:

Town of Bassendean – 6 findings – 43% relating to purchase orders and approvals

Shire of Dalwallinu – 16 findings – 44% relating to tendering

City of Fremantle – 12 findings – 33% relating to reviewing invoices and payment

City of Greater Geraldton – 9 findings - 44% relating to purchase orders and approvals

Shire of Harvey – 10 findings - 40% relating to reviewing invoices and payment

City of Kalgoorlie Boulder – 16 findings - 25% relating to reviewing invoices and payment

City of Karratha – 7 findings - 43% relating to reviewing invoices and payment

City of Stirling – 10 findings - 30% relating to reviewing invoices and payment