

MEETING NOTICE

The **Risk & Audit Committee** of
Bayside Council
will be held in the Pindari Room, Rockdale Town Hall
Level 1, 448 Princes Highway, Rockdale
on **Thursday 23 May 2019** at **6:30 pm**

SUPPLEMENTARY ITEMS

5 REPORTS

5.13	Final Inventory Management Audit Report.....	2
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Meredith Wallace
General Manager

Risk & Audit Committee

23/05/2019

Item No

Subject **Supplementary - Final Inventory Management Audit Report**

Report by Natasha Balderston, Internal Auditor

File SF18/3042

Summary

BDO completed an audit on Council's inventory management processes and identified significant areas of weaknesses. As a result, Council's inventory management processes were deemed High Risk. Seven issues were identified and a corresponding eighteen recommendations were made to assist in closing the existing gaps.

This is the supplementary report that includes the management comments and action plans received post discussion with the relevant Directors and Managers

Officer Recommendation

That the Risk & Audit Committee receives and notes the Final Inventory Management internal audit report.

Background

As part of the FY 2018/19 audit plan, an inventory management audit was undertaken by BDO. The purpose of the review was to determine Council's inventory management processes across the different businesses, identify areas for improvement and provide recommendations to close gaps. The audit identified eight issues and they were as follows:

No.	Audit Finding	Risk Rating	Business area	Directorate
1	Inventory management processes require improvement.	High	Stores	City Presentation
2	Fuel management controls require enhancement.	High	Stores	City Presentation
3	Controls over processing of Stores Issue Requisitions (non-fuel) require improvement.	High	Stores	City Presentation
4	Obsolete stores (stock) are not effectively managed.	Medium	Stores	City Presentation
5	Monitoring controls in relation to Masterfile modifications and stock adjustments are lacking.	Low	Stores	City Presentation
6	Golf Course – Inventory management controls are deficient in some areas.	Low	Botany Golf Course	City Life
7	Aquatic Centre – Inventory management controls are deficient in some areas.	Low	Botany Aquatic Centre	City Life

No.	Audit Finding	Risk Rating	Business area	Directorate
8	Tennis and Squash Courts – Inventory management controls are deficient in some areas.	Low	Tennis and Squash Courts	City Life

Eighteen recommendations were made to remediate the above issues. The report has been discussed with the Directors, Managers and Coordinators from the different business areas and they have been given the opportunity to provide management comments.

Internal Audit notes that similar issues have been raised in previous audit reports:

- Minimum and maximum inventory levels for the stores were identified in the follow up to the Operation Jarek report completed for the former City of Botany Bay Council. The issue was transferred into Bayside Council and eventually closed off as it was included in the relevant Coordinator's work plan.
- Fuel usage monitoring was identified as an issue in the 2016/17 Bayside Interim Management Letter, where the finding was rated an Extreme Risk. This finding was specific to underground fuel storage at Bexley depot but the inventory audit report has identified it as an issue across both depots.
- Conversation with the Coordinator Fleet Operations and Stores revealed there is currently one person manning the Botany store. Segregation of duties at the Botany store was identified as an issue in the Follow Up to Operation Jarek report.

Discussions with the Coordinator Fleet Operations and Stores also highlighted that the Inventory Management - Process and Operational Procedures document being useful. However, no training has been provided on this process and operational procedures because work is currently being done to set up both the Botany and Bexley stores in the same way. Once that project has been completed, the Coordinator Fleet Operations and Stores will provide training on these procedures and embed it within their business area.

Furthermore, it was noted that the inventory managed at the golf course, aquatic centre and tennis and squash courts were minimal, and financially insignificant. As a result, it was agreed between the BDO Auditor, Internal Audit and the business area that a less costly interim process would be put in the place of the suggested recommendations.

Attachments

FINAL - Internal Audit of Inventory Management - April 2019 - With Management Comments



Bayside Council (“Bayside”)

Internal Audit of Inventory Management

April 2019

FINAL





DISTRIBUTION

Party	Title
Meredith Wallace	General Manager, BC.
Colin Clissold	Director City Presentation, BC.
Debra Dawson	Director City Life
Steve Poulton	Manager City Works, BC.
Kate Kennedy	Coordinator Fleet Operations and Stores, BC.
Michael Mamo	Director City Performance, BC.
Scott Field	Manager Sports and Recreation
Fausto Sut	Manager Governance & Risk, BC.
Natasha Balderston	Internal Auditor, BC.
Sean Pascoe	Partner, BDO.
Steve Kent	Associate Director, BDO.



TABLE OF CONTENTS

1. EXECUTIVE SUMMARY	5
1.1 Background	5
1.2 Objective and scope	5
1.3 Approach	6
1.4 Summary of key findings	6
1.5 Overall Risk Rating	7
1.6 Acknowledgement	7
1.7 Report clearance	7
2. Detailed findings	8
2.1. Inventory Management processes require improvement	8
2.2. Fuel Management controls require enhancement	12
2.3. Controls over processing of Stores Issue Requisitions (Non-Fuel) require improvement	17
2.4. Obsolete Stores are not effectively managed	20
2.5. Monitoring controls in relation to Masterfile modifications and Stock Adjustments are lacking	22
2.6. Golf Course - Inventory Management controls are deficient in some areas	23
2.7. Aquatic Centre- Inventory Management controls are deficient in some areas	26
2.8. Tennis and Squash Courts- Inventory Management controls are deficient in some areas	28
APPENDIX A: Listing of Bayside Stakeholders interviewed	31
APPENDIX B: List of documents reviewed	32
APPENDIX C: Bayside Council's Risk Assessment Matrix	33

Bayside Council - Internal Audit of Inventory Management - April 2019

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3



Inherent Limitations

The Services provided are advisory in nature and do not constitute an assurance engagement in accordance with Australian Standards on Review or Assurance Engagements or any form of audit under Australian Auditing Standards, and consequently no opinions or conclusions intended to convey assurance under these standards are expressed.

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made.

Our work is performed on a sample basis; we cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the Statements and representations made by, and the information and documentation provided by Bayside personnel. We have not attempted to verify these sources independently unless otherwise noted within the report.

Limitation of Use

This report has been prepared in accordance with the approved Statement of Work dated 10 January 2019 and is intended solely for the information and internal use of Bayside and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report. We do not accept or assume responsibility to anyone other than Bayside or for any reliance that may be placed on this report by any party other than Bayside.



Executive Summary

1. EXECUTIVE SUMMARY

1.1 Background

This internal audit is being undertaken as part of Bayside Council's (Bayside or BC) Approved Internal Audit Plan for the year ending 30 June 2019.

Two main depots at Bexley and Botany manage the operational stores, including fuel for Bayside. Stores are managed through the TechOne Inventory Management System and Fuel is managed through the Data Fuel Management System. Significant work has been undertaken at Bayside to harmonise inventory and fuel management between the legacy systems and the processes of Rockdale and Botany Councils. Work to integrate the Data Fuel Management System with TechOne is currently in progress.

1.2 Objective and scope

The objective of this internal audit was to provide reasonable assurance over the design and effectiveness of internal controls that manage key risks associated in inventory management at Bayside.

This was achieved by assessing:

- The control framework, including relevant, documented policies and guidelines; roles and responsibilities; management of absences of key operational staff; separation of duties;
- The TechOne Inventory Management System (for stores other than Fuel) and the Data Fuel Management System including access management controls over the systems;
- Processes, systems and records utilised, including processes to manage stocking levels (ordering, setting of minimum/maximum levels), receiving, counting, storing, issuing, valuing and recording;
- Fuel management processes and in particular those that relate to storage efficacy, receipt and usage measurement monitoring and recording, frequency of stocktakes and calibration of measuring equipment;

- Resolution of matters raised by the NSW Audit Office in relation to
 - storage, usage and shortages of fuel at the Bexley Depot.
 - stocktake procedures and duplicated stores items.
- Compliance with current stores management policies, guidelines and process maps;
- Harmonisation of inventory and fuel management processes at Botany and Bexley depots. Progress on the integration of Data Fuel Management System with TechOne;
- Pricing of inventory and allocation of costs to projects and/or cost centres;
- Physical security of inventory (safeguarding of assets);
- Monitoring and reporting of inventory; and
- Accounting, valuation, physical verification and reconciliation of inventory.

The scope of the internal audit included inventory and fuel management at the following primary locations:

- Bexley Depot
- Botany Depot

Other locations that were visited where items are held for sale, included:

- Botany Aquatic Centre.
- Botany Golf Course (Pro Shop).
- Tennis and Squash Courts at Mutch Park.

Exclusions from the scope and the rationale for exclusion were:

- Procurement and Accounts Payable processes (focus was on inventory management).
- The Bexley Aquatic Centre (contracted to a third party).



Executive Summary

1.3 Approach

The following approach was undertaken during the internal audit:

- Held a kick off meeting with key stakeholders to finalise scope, timing, information requirements etc;
- Interviewed relevant staff, including the Stores Officers at each of the in scope locations and reviewed relevant documentation (refer Appendix A);
- Obtained an understanding of the inventory and fuel management framework, processes and systems through the review of relevant documentation (refer Appendix B);
- Developed a risk and controls matrix to identify any gaps in risk management and to assess the design and operational effectiveness of controls;
- Developed and performed an appropriate test program designed to provide reasonable assurance over the operation of controls;
- Identified control deficiencies and developed recommendations for improvements. Risk rated findings in accordance with risk matrix in Appendix C;
- Conducted an exit meeting with the relevant Council's staff following completion of the fieldwork to discuss:
 - Our findings;
 - Recommendations for control improvements in relation to those findings; and
 - Management's response to our findings and recommendations.
- Completed of draft and final reports

1.4 Summary of key findings

Positive findings

The Inventory Management control framework is supported by the documented Inventory Management Process and Operational Procedures. Inventory Management processes are being progressively implemented to

comply with these procedures and are being improved to ensure full compliance. Appropriate separation of duties has been implemented over procuring, receiving and issuing of stores inventory.

Substantially effective controls, including separation of duties were identified in areas of receiving and issuing of stores and fuel, physical security of stores and accounting reconciliations. 6 monthly, as well as random stocktakes have been implemented as a back stop to ensure completeness and accuracy of stores and fuel inventory balances and values.

Areas for improvement

Our internal audit identified areas for improvement to the end to end inventory management process to manage risks of incorrect inventory balances, incorrect valuation, higher inventory holding costs, processing errors and financial loss. Our findings are summarised below:

High Risk Matters:

- Harmonisation of inter and intra depot stores should be expedited to rectify matters such as:
 - different stock codes and stock items;
 - grouping of multiple products under the same broad stock code;
 - differing accounting treatments of store items between the two Depots;
 - store organisation and specific location of items physically and referenced in TechOne;
 - incorrect units of measure set up in TechOne for store items; and
 - minimum and maximum stocking levels for individual stores items not being established.
- Subject to our observations, the matters raised by the Audit Office in 2016/17 in relation to Fuel Management have been addressed. Discrepancies in fuel balances primarily caused by incorrect processing of fuel received and dispensed were noted. We noted that there is no set



Executive Summary

schedule for updates to TechOne of fuel dispensed with delays of up to 2 weeks having been noted. The period of Data Fuel system's data extraction is not recorded in a register at the Botany Depot to ensure completeness of the TechOne update. Additionally, the extracted data file can (and sometimes needs to be) changed to minimise upload errors (deletion of zero fuel dispensed records).

The current processes require improvement, including enhanced fuel usage monitoring to reduce the risks of misuse and duplicate, incomplete or inaccurate upload of fuel dispensed and received to TechOne that lead to fuel discrepancies.

- While reasonably effective processes and controls have been established at both Bexley and Botany that comply with the recently implemented Inventory Management Procedures, there is scope for improving procedures to ensure completeness and accuracy of processing Stores Issue Requisitions (SIR).

Medium Risk Matters

- Obsolete stock identification and disposal processes have yet to be developed and implemented. Such processes would include identifying slow moving, old or unused stocks, determining shelf life and deciding upon the strategy (retention, disposal or destruction) for stores items. A destruction certificate or equivalent that is independently signed as evidence of destruction has not been developed.

Low Risk Matters

- A formal approval process for adding, deleting or modifying stores items in the TechOne inventory master file has not been developed. Additionally, inventory adjustments can be individually made in TechOne without secondary review or approval. An audit trail report review or secondary work flowed approval has not been implemented.

- Inventory Management controls are deficient in some areas at the Botany Golf Course, Aquatic Centre and Squash and Tennis Courts. Individual stock locations for each of these sites should be considered for implementation in Tech 1 and the functionality of Tech 1 should be utilised to manage inventory.

Details of the above findings have been included in Section 2 of this report.

1.5 Overall Risk Rating

High: This is based on the overall inherent operational risks in Inventory Management and the risks identified that range from High (3), Medium (1) and Low (3). Each of these risks have been assessed using Bayside's Risk Matrix, Likelihood and Consequence tables that have been included in Appendix C.

1.6 Acknowledgement

We would like to take this opportunity to thank the management and staff of Bayside for their co-operation and assistance during the course of the review.

1.7 Report clearance

The content of this report has been discussed and agreed with Kate Kennedy (Coordinator Fleet Operations and Stores) and other key stakeholders.

Yours sincerely

Sean Pascoe
Partner, BDO Risk Advisory



Detailed Findings

2. DETAILED FINDINGS

2.1. Inventory Management processes require improvement

Risk Rating

High

Observations

The following inventory management matters were identified during this internal audit:

- Stock codes and stock items between the two Depots are different. Products and corresponding codes have not yet been harmonised. This will result in over stocking of similar items and a higher inventory holding cost. Operational/financial strategies should be streamlined between the two sites to enable appropriate stocking levels, streamline products and accrue benefits of bulk purchases
- Grouping of multiple products under the same broad stock code e.g. Gloves, toilet paper, hacksaw blades. This occurs primarily at the Botany Depot and results in inaccurate average cost and issue prices.
- Accounting treatment of some items differs between the two Depots. For example, while Engine Oils and Lubricants are a stores item at Bexley Depot, they are a consumable or non-stock item at the Botany Depot that are expensed when purchased. Disposable overalls are stores items at Botany, but non-stock at Bexley. Accounting strategies should be streamlined between the two sites as costs being charged to fleet assets may differ.
- Stores at both depots contained material that were not stores and were being retained therein for safe keeping. Also as discussed in the section below, there are items in stores that are non-stock and included in the Stores Issue Requisition (SIR) when required by operations staff. For example, Mesh Fence at Botany and Soap, Grease and 2 Stroke Oil are non-stock items that are requisitioned on the SIR.
- Floor plans and organisation of physical stores in storage units, with the storage unit being referenced in TechOne for ease of retrieval, are being investigated. Each Depot has multiple sites where inventory is stored. Bin locations in TechOne are the physical storage buildings such as Fuel Tanks (OW), WH (Warehouse), WS (Workshop), CO (Compound) or NA (Site unknown). Item locations within the sites i.e. Compactus and Shelf numbers are currently being implemented for Bexley. If appropriate stocking locations are not reflected in TechOne, it may result in operational issues of locating and fulfilling SIRs.
- All stock items, including liquids are recorded in TechOne as EACH instead of the ordering and issuing unit. For example,
 - item code 114805 King Hit Disinfectant is recorded as "each" in TechOne being litres in this case.
 - This item is ordered in number of litres whereas the product is supplied and issued from Store in 5 Litre bottles.

Bayside Council - Internal Audit of Inventory Management - April 2019

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8



Detailed Findings

- The supplier invoice for a 30 litre purchase order shows 2 items being 2 packs of 3 bottles each of 5 Litres.
- Store Issue Requisitions for a 5 Litre bottle will show a requirement of 1 unit.

The above requires the Stores Officer to convert the disclosed units for recording receipts and stores issues into TechOne. This misalignment causes irregularities in receipting and issuing the correct quantities, resulting in incorrect inventory balances and errors in unit pricing.

- Minimum/maximum levels have yet to be defined for stores. Hence ordering is based on the Stores Officers' knowledge of usage and may result in over or under stocking, the latter impacting operations.
- Obsolete stock identification and disposal processes have yet to be developed and implemented. We noted that the recent disposal of Botany Council branded uniforms did not have any proof of disposal or destruction. While the entire stock of such uniforms has been written off in January 2019, we noted multiple boxes of these uniforms in the Botany secondary store (caged area).
- A significant number of stores items that have a nil balances were identified in the trial balances for both the stores. We understand that these are new stock codes that have been created in TechOne for the harmonisation project to which current stores items will be transferred.

In addition to the above matters, we note that there is a lack of a formally approved project plan setting out the objectives, scope, requirements, implementation steps/project planning, resources, responsibilities and deliverables/desired state. Management reporting for the status against the project plan has not been developed. A project plan and progress reporting is essential to ensure clarity of direction, as well as to ensure that objectives are being achieved and there is visibility of progress by management.

Risks/Implications

- Inaccurate inventory balances and valuation
- Potentially higher inventory holding costs
- Improvement project objectives are not met



Detailed Findings

Recommendations

R1. The following matters raised above should be addressed within the Inventory Improvement project and their implementation tracked accordingly:

- Operational, financial and accounting strategies should be streamlined between the two sites to enable appropriate stocking levels, streamline products to accrue the benefits of bulk purchases.
- Products that have been grouped under a single product code should be separated and the corresponding quantities and values rectified.
- Inactive and obsolete stock items should be identified and disposed.
- Compactus and Shelf numbers of the physical location of store items should be referenced in TechOne against the stock code.
- The units of measure in TechOne should be modified to reflect the ordering and issuing units.
- Minimum and maximum levels should be developed for stock items.
- Stock obsolescence processes should be developed and implemented.

R2. The project plan that broadly defines the approach to be used by the Fleet and Stores project team to deliver the scope and objectives of the improvement project should be formalised and approved. A detailed project plan of the steps to be taken to achieve the broad objectives should be developed. Progress and status reporting should be developed to demonstrate the achievement of the scope, objectives and deliverables.

Management Comments	Role & name of officer responsible for action	Target Completion Date
R1.		
<ul style="list-style-type: none"> • Completed with current stock allocation, though product reviews are always an option to ensure most suitable products are supplied. 	Coordinator Fleet Operations and Stores, Kate Kennedy	30 June 2019



Detailed Findings

- All products now have single product codes, with correct quantities & Values updated, recommendation Completed.
- Both stores have been reviewed with items identified being either written off, financially the destroyed due to the items being obsolete (ie filters requiring disposal due to being 5 years old and not suitable to current fleet operations) finalise May 2019.
- Referencing has been completed for Bexley completed. Botany to be completed by end of May 2019 (due to relocation of the physical store).
- As of 14 May 2019, Fleet Operations now has access to modify this information within Tech 1, this will be completed by end of June 2019.
- Minimum and maximum levels have been completed for Bexley depot. Botany is in progress due to the physical relocation of stock, and this will be completed by end of June 2019.
- Stock obsolescence processes are currently being drafted - to be completed by end of June. Currently all items are identified by Store Officers, recommendations to Coordinator Fleet Operations & Stores, documentation completed then signed off by Manager City Works.

R2. Greater detailed documentation has been produced.	Coordinator Fleet Operations and Stores	Completed.
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Detailed Findings

2.2. Fuel Management controls require enhancement

Risk Rating

High

Observations

Automated processes in the Data Fuel system register fuel dispensed from bowzers. Electronic Tags maintained in the vehicle are used to activate the appropriate bowser for diesel or unleaded petrol. Receipting of fuel is verified by performing a dip before and after the fuel delivery and the quantity received is input into TechOne by the Stores Officer. Subject to the observations below, the matters raised by the Audit Office in 2016/17 have been appropriately addressed.

Our review of the Fuel Management process identified the following:

- Physical verification of fuel in the tanks is included in the six monthly stocktake that has been implemented. Additionally, a bi-weekly fuel dip verification is performed to identify any significant variation from the TechOne recorded balance. While a formal tolerance level is not published, corrections are generally not performed for any variations that are identified in the bi-weekly fuel dips. However, any "significant" variation is investigated and errors of input (particularly of receipts) are adjusted. While a threshold variation has not been determined, a new business process is being implemented to verify the balance in TechOne and investigate any variations.
- There were significant fuel discrepancies noted at Botany Depot during the full stocktake that was undertaken by Management in December 2018 that were primarily caused by incorrect recording of fuel delivered and dispensed, as follows:

Bin	Product Number	Description	Barcodes	Stock Item Nbr	Times Counted	Storage Units	Book Qty On Hand	Counted Quantity	Adjustment Quantity	Average Cost	Adjustment Value (-ve = write-off)
BOTDEPBOW	150364	DISTILLATE			1	LT	10,513.4000	6,780.0000	-3,733.4000	1.28	-4,762.67
BOTDEPBOW	150919	UNLEADED PETROL			1	LT	4,270.2000	5,220.0000	949.8000	1.31	1,246.87



Detailed Findings

Lesser discrepancies were noted for Bexley Depot:

Bin	Product Number	Description	Barcodes	Stock Item Nbr	Times Counted	Storage Units	Book Qty On Hand	Counted Quantity	Adjustment Quantity	Average Cost	Adjustment Value (-ve = write-off)
BEXDEPBOW	116000	Diesel - TANK 3			3	LT	2,950.0000	3,020.0000	70.0000	1.15	80.84
BEXDEPBOW	116010	Diesel - TANK 2			3	LT	10,056.6000	11,150.0000	1,093.4000	1.19	1,297.09
BEXDEPBOW	116015	Unleaded 91 - TANK 1			3	LT	10,196.2000	10,000.0000	-196.2000	1.27	-249.76

During our review we undertook a fuel dip at both Bexley and Botany. Discrepancies were noted at both sites as follows:

Botany	Tech 1 balance	Issues Not recorded	Incorrect receipting	Expected Dip	Actual Dip	Var	
Tank 1 ULP	11,486.00	837.30	-	1,999.00	1,163.00	7,486.70	7920 433.30 Excess
Tank 2 Diesel	27,239.20	8,975.50	2,993.50	4,853.00	4,459.00	5,958.20	6100 141.80 Excess

Bexley	Tech 1 balance	Issues Not recorded	Incorrect receipting	Expected Dip	Actual Dip	Var	
Tank 1 ULP	8,503.80	5.19	-	-	-	8,498.61	8,450.00 - 48.61 Short
Tank 2 Diesel	8,440.70	1,112.66	-	-	-	7,328.04	7,410.00 81.96 Excess
Tank 3 Bio Diesel	3,020.00	-	-	-	-	3,020.00	3,020.00 -

As noted above, incorrect receipting of fuel deliveries was also evidenced.

- Fuel dispensed and recorded in the Data Fuel system is uploaded to TechOne via an ETL (Extraction, Transformation, Loading) process that is executed via multiple manual processes. Fuel dispensed data first needs to be extracted from the Data Fuel system, converted to Excel and then uploaded to TechOne. There is no set schedule for this process and it is executed irregularly, with delays of up to 2 weeks having been noted (Botany). Unlike Bexley where the period of data extraction is recorded in a register, Botany maintains no such register to ensure completeness of extraction of data. Additionally, the extracted data file can (and sometimes needs to be) be changed to minimise upload errors (deletion of zero fuel dispensed records). The above leads to risks of duplicate, incomplete or inaccurate upload to TechOne, resulting in fuel discrepancies.
- There is no fuel usage monitoring, including log books to assess any likely misuse of fuel accessed at the bowzers. The tolerance levels available and established in the Data Fuel system are not utilised to perform the assessment of normal business use kilometres and actual kilometres.
- Botany Data Fuel interface with TechOne: There is a technical issue with uploading fuel dispensed at Botany to TechOne that requires a manual workaround to ensure completeness and accuracy of the upload. The ETL that was written for Bexley maps to the correct stock item for Bexley.



Detailed Findings

However, for Botany there is a need to change the stock import CSV file to account for the Botany inventory item codes. Discussions with the Co-ordinator Fleet and Stores indicated that a technical solution is currently being investigated. Bexley's fuel stock codes will be modified to reflect those at Botany, which will resolve this technical issue.

- Other matters that were observed and require management's attention are:
 - Fuel dispensed at the bowser is not calibrated with Data Fuel recording on a regular basis.
 - 3,020 litres of Bio-Diesel with a book value of \$3,487 has remained unused at Bexley since before 2016. Research indicates that bio diesel has a shelf life of between 3-6 months.

Risks/Implications

- Inaccurate, incomplete or duplicate upload of fuel dispensed data to TechOne.
- Fuel discrepancies and financial loss.

Recommendations

R3.1 A daily, automated ETL from Data Fuel to TechOne should be investigated and implemented.

R3.2 The technical solution to modify Bexley's fuel stock codes to reflect those at Botany should be implemented.

R4.1 More frequent fuel dips (particularly before and after a fuel delivery) should be implemented to identify and correct discrepancies (including correction of root cause) above a threshold (to be established in policy).

R4.2 Fuel usage monitoring, including the introduction of log books should be introduced to assess any likely misuse of take home vehicles. Use of the tolerance levels established in the Data Fuel system could be utilised to perform the assessment of normal business use kilometres and actual kilometres.



Detailed Findings

R5. Controls in relation to receipting of fuel should be strengthened (e.g. by secondary review) to minimise the risk of incorrect receipting. More frequent fuel dips discussed in R4 above is also a control to minimise this risk.

R6. Implement a monthly calibration of fuel dispensed at the bowser and that recorded in Data Fuel.

R7. Investigate unused bio-diesel and assess for potential write-off/disposal if it is unlikely to be used. The fuel may need to be reanalysed to assess if it meets specification, if a decision to use or dispose of it is made.

Management Comments	Role & name of officer responsible for action	Target Completion Date
R3.		
3.1 - IT Support ticket logged to determine if an automated ETL from Data Fuel to TechOne can be implemented, this will be implemented if available via Tech 1.	Coordinator Fleet Operations and Stores	30 September 2019.
R3.2 Fuel stock on hand will be moved to Bexley stock numbers to be completed by end of May 2019.	Coordinator Fleet Operations and Stores	31 May 2019.
R4.		
R4.1 Fuel dips already conducted pre/post fills. Staff have been reminded of the process of twice weekly dips, For consistency purposes this process is already in the Inventory Management Process and Operational Procedures Document	Coordinator Fleet Operations and Stores	30 June 2019.



Detailed Findings

though we will include specific threshold by June 2019.

R4.2 Fuel usage / Tolerance levels (both card and bulk) is already monitored and reviewed (odometers against fuel usage) with any discrepancies discussed with relevant supervisor / Manager. Data fuel can only be set based on single fill limits with no correlation to Kilometres. Log books will not are not required for the purposes stated above.

Coordinator Fleet Operations and Stores

Completed.

R5.

Purchase orders are amended to reflect actual quantities supplied and approved prior to receipting of fuel, Completed.

Coordinator Fleet Operations and Stores

Completed.

R6.

Data fuel controls the fuel that comes out of the bowser - the bowsers are calibrated by Petrolink on a 6 monthly basis to ensure correct dispensing, Completed.

Coordinator Fleet Operations and Stores

Completed.

R7.

Fleet is currently working with fuel suppliers to discuss the possibilities of blending the mix with standard diesel or the process of writing off and disposal. This will be completed by June 2019.

Coordinator Fleet Operations and Stores

30 June 2019.



Detailed Findings

2.3. Controls over processing of Stores Issue Requisitions (Non-Fuel) require improvement

Risk Rating

High

Observations

While reasonably effective processes and controls have been established at both Bexley and Botany Depots that comply with the recently implemented Inventory Management Procedures, there is scope for improvement to ensure completeness and accuracy of processing Stores Issue Requisitions (SIR). Our sample testing of SIRs with TechOne established that they are generally entered into TechOne accurately. However, we make the following observations:

- There is a lack of evidence (e.g. a tick mark) on each item on the SIR of having input all store issues into TechOne. There is a risk that all items may not be accurately recorded in TechOne.
- While the Stores Officer (SO) is expected to sign the SIR as evidence of issue from stores, a signature was not present in some instances.
- As noted in 2.1 above, all stock items including liquids are recorded in TechOne as EACH instead of the ordering and issuing unit. This misalignment may cause irregularities in receipting, as well as issuing the correct quantities, resulting in incorrect inventory balances and errors in unit pricing.
- Delays in recording SIRs in TechOne were noted. (6/3 SIRs entered 13/3 Bexley; 1/3 SIRs entered post 14/3 Botany). These delays may be caused due to lack of resourcing. We also noted that there are delays in updating stock issues of workshop supplies e.g. engine oils and lubricants that are stored in the workshop. The Workshop Oil Issue Sheet completed by workshop staff when oils and lubricants are used in servicing the fleet and is provided to the Stores Officer only once the entire sheet is filled.
- A single item could be located in multiple areas within a bin location or at multiple sites. Bin locations have not been updated in Tech1 for the Botany Depot and all items are either in the OW, WH or NA categories. All stores items are located at DEPOT (BEXDEPOW, BEXDEPWH, BEXDEPWS, BEXDEPCO or NA) or BOTDEP (BOTDEPOW or NA). Physical bin locations could be at one or more sites and/or bins within a site. This results in negative stock balances in one location, as items may be issued from an incorrect one in TechOne.
- Stores item codes are not always written on the SIR by the requisitioning department and are required to be completed by the Stores Officers after the item is picked. The Project/Activity/Natural account number is not fully provided on the SIR by the requisitioning department and needs to be completed by the Stores Officer.
- Other matters for improvement include:
 - Unlike Botany, at Bexley, the SIR number is not entered as a reference in TechOne for ease of reference.

Bayside Council - Internal Audit of Inventory Management - April 2019

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17



Detailed Findings

- There are items in stores that are non-stock and included in the Stores Issue Requisition (SIR) when requisitioned by operations staff. For example, Mesh Fence at Botany and Soap, Grease and 2 Stroke Oil are non-stock items that are requisitioned on the SIR. Such items are not specifically referenced in the SIR as being non-stock.

A number of the matters discussed above could have caused variations that were noted during the random stock counts that we performed. (40% and 10% of the items we counted did not reconcile with TechOne balances at Botany and Bexley respectively).

Risks/Implications

- All SIRs may not be entered into TechOne accurately
- Incorrect stock item issued
- Incorrect location of stock item used to issue stores
- Inaccurate inventory values due to delays in updating receipts and issues
- Negative inventory balances

Recommendations

R8. Create a file/folder/sleeve where unrecorded SIR's are retained until they are recorded, to minimise the risk of SIR's being lost. When entered, each item issued should bear evidence of being entered into TechOne and signed by the Stores Officer. The delay in entering SIRs into TechOne should be minimised

R9. As discussed in Section 2.1, the units of measure in TechOne should be modified to reflect the ordering and issuing units. Similarly, location of store items should be streamlined.

R10. While full stocktakes are undertaken monthly, a regime of frequent random stocktakes, including therein higher usage stores items should be implemented to identify any irregularities or input errors.



Detailed Findings

R11. Aspects raised above as matters for improvement should be addressed. For ease of reference, SIR numbers should be referenced in TechOne. Items that are non-stock should be clearly identified in the SIR. Stores item codes and Project/Activity/Natural account numbers should be written on the SIR by the requisitioning department.

Management Comments	Role & name of officer responsible for action	Target Completion Date
R8. Implemented and completed.	Coordinator Fleet Operations and Stores	Completed.
R9. Refer to 2.1. To be completed by June 2019.	Coordinator Fleet Operations and Stores	Completed.
R10. Process for random stocktakes is within the Inventory Management Process and Operational Procedures. Completed.	Coordinator Fleet Operations and Stores	Completed.
R11. This recommendation has been implemented and is completed.	Coordinator Fleet Operations and Stores	Completed.



Detailed Findings

2.4. Obsolete Stores are not effectively managed

Risk Rating

Medium

Observations

Obsolete stock identification and disposal processes have yet to be developed and implemented. Such processes would include identifying slow moving, old or unused stocks, determining shelf life and deciding upon the strategy (retention, disposal or destruction) for stores items. A destruction certificate or equivalent that is independently signed as evidence of destruction has not been developed.

The current process is ad hoc where the Stores Officer may identify old or slow moving stock that may need to be disposed or destroyed e.g. boots that may have exceeded their shelf life. Discussions with the Coordinator Fleet Operations and Stores (CFOS) confirmed that any stores that are earmarked for destruction are placed in the Council's compactor trucks, including items such as the old Botany Council branded uniforms. Currently there have not been any instances where old or obsolete stores have been auctioned however, the cost / benefit of sending any higher value items to auction would be assessed by the CFOS.

Additionally, we noted that the recent disposal of Botany Council branded uniforms did not have any proof of disposal or destruction. While the entire stock of such uniforms has been written off in January 2019, we observed multiple boxes of these uniforms in the Botany secondary store (caged area).

Risks/Implications(impact = Low; likelihood = Likely; Risk = Medium)

- Increased and unnecessary inventory holding costs
- Financial loss

Recommendations

R12. Obsolete stock identification and disposal processes that include proof of disposal or destruction documents that are signed by an independent officer should be developed and implemented.



Detailed Findings

R13. Evidence of management approval on disposal or destruction documents should be retained.

Management Comments	Role & name of officer responsible for action	Target Completion Date
R12. The obsolete stock identification and disposal process has already developed. A destruction document is being drafted by June 2019.	Coordinator Fleet Operations and Stores	30 June 2019.
R13. Documentation is retained within Content Manager. The destruction document being drafted will be retained within Content Manager once completed.	Coordinator Fleet Operations and Stores	30 June 2019.



Detailed Findings

2.5. Monitoring controls in relation to Masterfile modifications and Stock Adjustments are lacking

Risk Rating

Low

Observations

A formal approval process for adding, deleting or modifying stores items in the TechOne inventory master file has not been developed. Additionally, inventory adjustments can be individually made in TechOne without secondary review or approval. An audit trail report review or secondary work flow approval has not been implemented.

Risks/Implications (impact = Low; likelihood = Unlikely; Risk = Low)

- Unauthorised changes to the inventory master file
- Unauthorised adjustments

Recommendation

R15. Work flow approval processes in TechOne should be investigated and implemented for inventory Masterfile changes and stock adjustments. Alternatively, retrospective approval from the Manager Works by review of audit trail reports should be implemented.

Management Comments	Role & name of officer responsible for action	Target Completion Date
R15. T1 process does not allow workflow for this process. However there is a segregation of responsibility where by adding/changing inventory products cannot be undertaken by	Coordinator Fleet Operations and Stores	Completed.

Bayside Council - Internal Audit of Inventory Management - April 2019

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22



Detailed Findings

Stores Officers. This function exists in separate Tech 1 workplace not accessible by frontline staff). Adjustments made are printed and signed by Coordinator / Manager City Works. Completed.

2.6. Golf Course - Inventory Management controls are deficient in some areas

Risk Rating

Low

Observations

During our discussions, enquiry and internal audit testing, the following observations were made at the Golf Course:

- *Stocktakes reports and adjustments are not formally reviewed by the site managers* - Stocktakes are conducted by the supervisor, with the additional assistance of a Customer Service Officer. Stocktakes are manually input into an excel spreadsheet as the inventory is not linked to their POS system. The spreadsheet is then reviewed by the Finance Manager for a brief analysis of discrepancies or unusual movements and is then posted immediately by a second Finance officer. However, the detailed review would only be discussed with the site manager, if Finance have identified any discrepancies. The inventory sheets also do not provide evidence of thorough review by the site manager.
- *Stock movements are recorded, but are not verified and monitored* - Our discussions with the Finance Manager indicated that anomalies or major manual adjustments did not occur often and would mainly be related to food and drink write downs. The site supervisor completes the stock adjustments, rather than being 'approved' as such, and is sent to Finance who would do a reasonableness check. The stocktake spreadsheet is not reviewed against an official list of purchases and sales. The review would only be against write-downs and other adjustments and would be escalated to the Manager Sports and Recreation (Sue Matthews) if explanations by the Supervisor were not sufficient.
- *The POS and finance system does not record stock transactions and issues* - The current POS system is outdated and does not record stock levels, but rather the sales levels for each category of items, 'Green fees', 'Hire & Pro-shop', 'Food and drink' categories. Each time a sale is made, the customer service office would select the item particular on the POS system and if the customer records via EFTPOS, the item category would be manually written at the back of the merchant receipt for end of day reconciliation purposes. However, the current system is unable to extract a sales report to show a separate line item for each item of sale.
- *Items for hire by customers are not being monitored for use* - Items for hire include buggies, golf balls and sets of golf clubs. Customers are accustomed to using their own golf items and would occasionally require to hire. If a customer were to hire, it is the responsibility of the



Detailed Findings

customer service officer to monitor and ensure the item is returned after use. However, there is no formal log book to monitor when a particular item was hired.

Risks/Implications

- Incomplete, invalid and incorrect inventory quantity and pricing adjustments are not detected and affect financial records.
- Misappropriation of inventory by staff members.
- Missing sales opportunities due to obsolete stock or insufficient stock.
- Increased theft or instances of theft being undetected.

Recommendation

R16.

- The golf course should be set up as an inventory location in TechOne and its functionality should be utilised to manage inventory.
- Ensure the Site Manager reviews and signs the stocktake spreadsheet before stock adjustments and journals are entered into the Finance system; Audit trail reports of adjustments made should be generated, reviewed and approved by the site Manager
- As there is no linkage between the POS record of sales and the inventory spreadsheet, there should be a reconciliation between the POS reports and the sales recorded in the inventory spreadsheet. Inventory spreadsheets should be reviewed by the Site Manager along with report of sales from the POS system.
- Independent stocktakes should be commenced due to the current lack of separation of duties.
- Update the current POS system to allow accurate reporting of sales.
- Ensure a log book is maintained, including Item/s hired, date and time, customer name, DL Number and signature to ensure items are returned.



Detailed Findings

Management Comments	Role & name of officer responsible for action	Target Completion Date
R16. The Golf Course is currently under review. Expense on new systems are on hold until the decision is made on what direction to be taken. In the interim steps below will be put in place:		
Stock take done monthly and provided to Finance and Manager	Arthur Kotopoulos	Completed
The future of the Golf Course still to be determined and an Integrated POS system not available. This is not feasible and will not be implementing this recommendation.	Manager Sports and Recreation, Scott Field	Completed
Stocktakes done and provided to Manager and Finance. Independent random checks to be done by Finance and Manager on a monthly basis.	Arthur Kotopoulos Manager Sports and Recreation, Scott Field Finance Officer, William Hooke	1 July 2019
Log book to be maintained	Arthur Kotopoulos	1 June 2019



Detailed Findings

2.7. Aquatic Centre- Inventory Management controls are deficient in some areas

Risk Rating

Low

Observations

During our discussions, enquiry and audit testing, the following observations were made at the Aquatic Centre:

- *Informal stocktake reports are produced, but do not record or ensure monitoring of stock movements* - A stock count is informally conducted by one senior officer on an ad hoc basis, particularly when an item of stock is purchased and received. Audit testing for January 2019 revealed a list of all items for sale, the price, amount sold, expected stock and the actual stock. However, the report does not account for potential write-offs, transfers, cost variances of stock etc. The report is simply used for forecasting purchases.
- *Stocktake reports are not reviewed* - We note that inventory values are very minimal, but if stock variances do occur, there is no evidence of review and approval by the supervisor. Subsequently, stocktake reports do not get sent or reviewed by Finance and the Site Manager. We were informed by the Finance Manager, William Hooke, that a new stock management process will be in place for the Aquatic centre for the month of February.
- *Required minimum or maximum quantities are not in place* - Purchases are approved by the Site Manager and are not required on a regular basis due to the low volume of inventory sold. However, established stock amounts would enable supervisors and site managers to monitor and control inventory levels, particularly if n stock orders for items are not required.

Risks/Implications

- There is a risk that inventory is not accounted for appropriately.
- Increased theft or instances of theft being undetected.
- Incomplete, invalid and incorrect inventory quantity and pricing adjustments are not detected and affect financial records.
- Increase in costs due to an excess or shortage of stock.



Detailed Findings

Recommendation

R17. It is recommended that Bayside:

- Ensure stocktake reports are reviewed by Finance and the Site Manager with evidence of signature;
- Validate stock purchases and sales to the actuals and resolve differences with appropriate approval;
- Conduct periodic stocktaking with a formalised stocktake process to monitor stock movements; and
- Establish maximum and/or minimum stock levels on stock count sheets for purchasing purposes.

Management Comments	Role & name of officer responsible for action	Target Completion Date
R17. Centre is currently closed. Staff are moving to use Links software after training for next season.		
Stocktake reports currently received monthly by Finance and there is evidence of signature.	Supervisor Aquatic Pool, Sandy Davies	Completed
Details to be provided monthly to Finance and reviewed by Coordinator.	Supervisor Aquatic Pool, Sandy Davies Coordinator Sports and Recreation, Gavin Ross	30 September 2019
Stock is minimal and will report quarterly to finance.	Supervisor Aquatic Pool, Sandy Davies	30 September 2019

Bayside Council - Internal Audit of Inventory Management - April 2019

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27



Detailed Findings

2.8. Tennis and Squash Courts- Inventory Management controls are deficient in some areas

Risk Rating

Low

Observations

During our discussions with the supervisor, we were informed that the items for sale and hire include rackets (purchased and gifted by customers), balls and grips. Generally customers bring their own equipment. Given these circumstances, stock is kept at minimal levels due to the low level of sales and purchases. However, the following observations were made:

- *Stocktakes are not conducted and reviewed* - With a stock value of less than \$1,000, we can recognise a weekly or monthly stock would not be suitable for the site. The supervisor has advised that any stock that has been sold or received is recorded in his diary and he would provide Finance with the diary at the end of financial year or when required. However, there is no evidence with Finance that this diary is a key point for inventory review. Additionally, there is no official consolidated documented list of stock.
- *Stock discrepancies are not recorded, monitored and escalated to Manager Sports and Recreation and Finance* - There is no formal record of items for sale and for hire. Our interview with the supervisor, indicated that purchases were not regular, usually every 3 to 4 months as required. There is no monitoring of stock movements, including sales and purchases.
- *Items for hire by customers are not regularly monitored for use* - If a customer were to hire a racket, the supervisor would be responsible for monitoring the return of the item. There is no formal log book to show when a particular item was hired. This would inevitably ensure that any damage, that is likely to be minor, can be satisfactorily explained, reviewed and monitored by the site manager.

Risks/Implications

- There is a risk that inventory is not accounted for appropriately.
- Increased theft or instances of theft being undetected.
- Incomplete, invalid and incorrect inventory quantity and pricing adjustments are not detected and affect financial records.



Detailed Findings

Recommendation

R18. It is recommended that Bayside:

- Conduct periodic stocktaking with a formalised stocktake process to monitor stock movements.
- Ensure stocktake reports are reviewed by Finance and the Site Manager with evidence of signature.
- Validate stock purchases and sales to the actuals and resolve differences with appropriate approval.
- Formally ensure a log book is maintained, including Item/s hired, date and time, customer name and signature.

Management Comments	Role & name of officer responsible for action	Target Completion Date
<p>R18.</p> <p>Stock is so minimal at the squash courts formal implementation of controls would not be justified.</p> <p>There are no transactions at any tennis courts.</p> <p>Squash</p> <p>Recommend quarterly stock take reports signed off by site manager to finance to be reviewed by manager on a 6 monthly basis.</p> <p>No cash handling, monthly recording of sales to be reviewed and signed off by finance and manager.</p>	<p>Squash Court Attendant, Paul Farrugia</p> <p>Squash Court Attendant, Paul Farrugia</p>	<p>1 July 2019</p> <p>Completed</p>

Bayside Council - Internal Audit of Inventory Management - April 2019

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29



Detailed Findings

Log book maintained, no signature required due to constant surveillance

Paul Farrugia

Completed



APPENDIX A: Listing of Bayside Stakeholders interviewed

Stakeholders
Bobbi Mayne, Manager Procurement
Kate Kennedy, Coordinator Fleet Operations and Stores
Steven Calleja Stores Officer Bexley Depot
Glen Johns, Acting Stores Officer Botany Depot
Melissa Jones, Stores Officer Botany Depot
Matthew Walker, Manager Finance
Chris O'Connor Finance
William Hook, Treasury Officer
Arthur Kotopoulos, Botany Golf Course
Paul Ferrougia, Squash Courts
Sandy Davis, Aquatic Centre

Bayside Council - Internal Audit of Inventory Management - April 2019

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31

**APPENDIX B: List of documents reviewed**

Inventory Trial Balances

Stock Count Sheets

Stock Adjustment and Finalisation Sheets

Inventory Transactions

Stores Issue Requisitions

Inventory Management - Process Operational Procedures

NSW Audit Office - 2016-2017 financial accounts

Data Fuel Reports and Reconciliations

Inventory Management - Change and Implementation

Inventory Reconciliations

Golf Pro Shop Procedures

Golf Course Ledger day reports

Prices

Links Reconciliation Reports

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32



APPENDIX C: Bayside Council's Risk Assessment Matrix

Risk Ratings	Consequence				
	1. Very Low	2. Minor	3. Moderate	4. Major	5. Extreme
5. Almost Certain	High	Very High	Extreme	Extreme	Extreme
4. Likely	Medium	High	Very High	Very High	Extreme
3. Possible	Low	Medium	High	Very High	Extreme
2. Unlikely	Low	Medium	Medium	High	Very High
1. Rare	Low	Low	Low	Medium	High

Likelihood ratings.

Rating	Likelihood	Description	Quantification
1	Rare	The event may occur but only in exceptional circumstances. No past event history.	Once every 50 years or more. Less than 10% chance of occurring.
2	Unlikely	The event could occur in some circumstances. No past event history.	Once every 20 years. Between 10% and 30% chance of occurring.
3	Possible	The event may occur sometime. Some past warning signs or previous event history.	Once every 5 years. Between 30% and 70% chance of occurring.
4	Likely	The event will probably occur. Some recurring past event history.	Once a year. Between 70% and 90% chance of occurring.
5	Almost Certain	The event is expected to occur in normal circumstances. There has been frequent past history.	Several times a year. Greater than 90% chance of occurring.



Table of Consequences

Consequence Rating	Impact on Council's Objectives	Financial Impact	Operational Impact	Reputational Impact	Compliance Impact	HR Impact	Environmental Impact
Extreme	Most objectives can no longer be achieved Complete revision of long term business model required	More than \$3m pa recurrent impact on operating budget More than \$10m one-off budgetary impact	Key activities and essential services disrupted for over 14 days Death or serious injury / illness to members of the community Sustained and significant dissatisfaction with Council service delivery	Council or senior management, sustain significant adverse national media coverage Reputational damage that will be likely to take many years to repair.	Council removed from office by Minister and Administrator appointed Investigation by ICAC or other agency with compulsory powers to examine witnesses in public hearings into substantial allegations of fraud and / or serious misconduct by Councillors or Officers	Sustained major negative impact on staff morale Serious injury requiring long term medical treatment Loss of life Major sustained breach of WHS Legislation, prosecution, Staff retention less than 80%	Environmental incident causing damage directly leading to extinction of a species of flora or fauna; Toxic chemical spill with enduring contamination and serious human health consequences requiring closure or isolation of land
Major	A number of significant business objectives can no longer be achieved	Between \$1m and \$3m recurrent impact on operating budget, one off impact between \$5m and \$10m.	Key services disrupted for between 2 and 14 days significant reductions in customer satisfaction injury or property damage resulting in litigated claims against Council	Investigation by external body resulting in substantive negative findings significant adverse media at state and local level significant & well publicised outcry from residents, long story life.	Council required to show cause why it should not be suspended from Office by Minister. Council issued with Performance Improvement Order(s) by Minister concerning substantial matters of Councillor and/or Officer conduct. Council found to be criminally liable Council found to be liable for penalties and/or damages >\$5m	Major one-off breach of work place legislation Major localised negative impact on morale Lost time injuries requiring major medical treatment, Staff retention rate between 80% and 85%	Environmental incident causing significant damage to threatened species or habitat and / or seriously endangered ecological community

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34



Consequence Rating	Impact on Council's Objectives	Financial Impact	Operational Impact	Reputational Impact	Compliance Impact	HR Impact	Environmental Impact
Moderate	Some important business objectives can no longer be achieved	Between \$200k and \$1m recurrent impact on operating budget one off impact between \$1m and \$5m	Key services disrupted for between 1 and 2 days short term or isolated reductions in customer satisfaction minor injury or property damage claims.	Medium term local media coverage concerns from sections of the community governance breaches or failures notified to external bodies but dealt with internally.	Council Convicted for breach of legislation in Court or Tribunal	Minor breach of workplace legislation short duration lost time injury requiring minor medical treatment staff retention rate between 85% and 90% negative impact on morale.	Pesticide spill into waterway causing harm to native species Inappropriate pesticide use at playgrounds Exposing acid sulphate soils in recreation area
Minor	Some reprioritisation of resources to enable business objectives to be achieved	Between \$50k and \$200k recurrent impact on operating budget one off impact between \$0.2m and \$1m	Key services disrupted for <1 day one-off reductions in customer satisfaction minor injury or property damage not resulting in a claim on Council	Short term local media coverage heightened concerns from narrow group of residents governance breaches or failures dealt with internally without the need for external referral	Council issued minor fine or penalty for breach of legislation in court or tribunal and / or ordered to pay compensation or damages pursuant to breach	Short term impact on staff morale minor injuries or illness from normal activities treated by first aid.	Pollution of waterways with sediment runoff due to incorrect construction site management Minor breach of environmental licence resulting in court attendance notice
Low	Little or no impact on business objectives	<\$50k recurrent impact on operating budget, one-off impact <\$0.2m.	Usual scheduled interruptions unscheduled interruptions for <4 hours.	One off insignificant adverse local media or public complaints.	Council issued with fixed Penalty Infringement Notice for breach of legislation	Localised raising of concerns by staff Isolated incidents and/or 'near miss' occurrences.	Tree removal in environmentally sensitive area leading to protest and local environmental concern Isolated infringement of environmental licence leading to fixed penalty

Bayside Council - Internal Audit of Inventory Management - April 2019

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35