



NSW RURAL FIRE SERVICE

Internal Audit of

SECTION 44-RELATED PROCUREMENT

IAB Job No. 2847

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COMMERCIAL IN CONFIDENCE

IAB SECURITY CLASSIFICATION: NSW RFS AUDIT IN CONFIDENCE

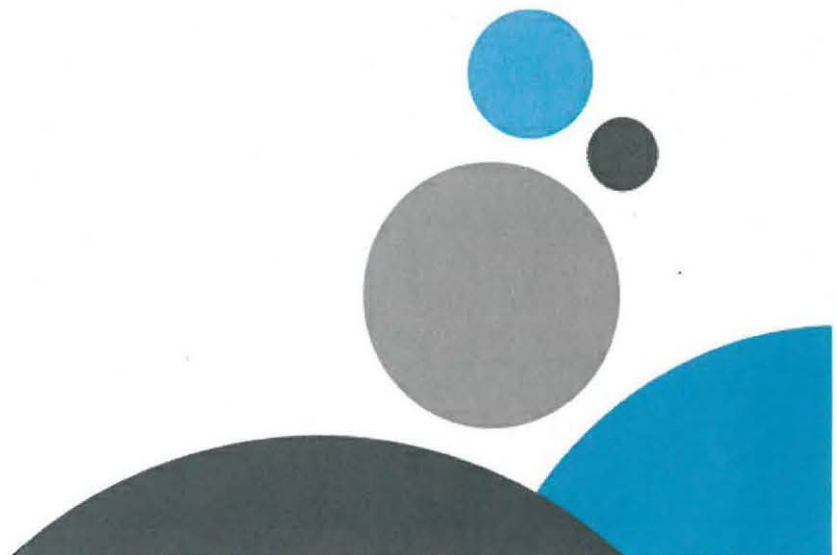


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EXECUTIVE SUMMARY

This report details the results of IAB's internal audit of section 44-related procurement for the NSW Rural Fire Service (NSW RFS). This audit is part of NSW RFS's approved 2014/2015 Internal Audit Plan. The fieldwork was performed during March and April 2015.

CONTEXT

The Commissioner of the NSW RFS has the power, under section 44 of the Rural Fires Act 1997, to make a declaration that results in the Commissioner or the Commissioner's nominee taking charge of bushfire-fighting operations in any part of the State where the Commissioner deems it likely that a bushfire or bushfires may be beyond the capacity of the responsible local fire-fighting agencies to control or is likely to become so.

As section 44 events are, by definition, larger scale events, they require significant logistical support, including significant procurement activity.

NSW RFS's section 44-related procurement over the audit period from 1 July 2012 to February 2015 amounted to approximately \$236.6 million i.e. \$89.9 million and \$123.5 million for the financial years ended 30 June 2013 and 2014 respectively, and \$23.2 million for the period 1 July 2014 to February 2015. These amounts include overtime, hire of aircraft and heavy plant, meals and accommodation, etc. They also include expenditures initially incurred by councils and other agencies and later claimed from NSW RFS.

Much of the section 44-related procurement is, by its nature, performed on an emergency basis. Such purchases must be made quickly in response to emergency situations in order meet the combat and support requirements of operational activities. As such, there will almost inevitably be a lower standard of internal control able to be exercised in relation to such procurement compared with a non-emergency situation.

Note that much section 44-related expenditure can be reimbursed from the National Disaster Relief and Recovery Arrangements (NDRRA). Claims on NDRRA funds are audited independently to ensure that the expenditure is valid and directly attributable to section 44 events.

OBJECTIVE AND SCOPE

The objective of the audit was to provide assurance that internal controls surrounding section 44-related procurement are designed effectively and are operating as intended. The areas of focus were as follows:

- The Control environment (ethics in procurement, management structure, delegation of authority, policies and procedures).
- Procurement strategy (including risk assessments).
- Control activities (including the process of raising manual requisitions and Purchase Orders, contracting and payment), and
- Information and monitoring of section 44-related expenditure.

The audit excluded section 44-related reimbursement of other agencies' costs.

*More information regarding the audit objectives and scope is provided in **Attachment A: Detailed Audit Objectives and Scope**.*

RISK ELEMENTS

A standalone risk register for the NSW RFS Procurement function was created as part of the procurement accreditation process that commenced in early 2014. This register was limited to business as usual procurement activities and excluded section 44-related procurement. On 24 March 2015 the risk register was revised by NSW RFS to include section 44-related procurement. It identified that there was a risk that section 44 procurement lacked internal controls and governance, and gives a control effectiveness rating of "Partially Effective" with a residual risk rating of "High".

CONCLUSION

Our overall assessment of the effectiveness of the control environment is shown below.

Control Effectiveness Rating	Largely Ineffective
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Our assessment of the effectiveness for each scope area is shown below.

SCOPE AREA	CONTROLS RATING
1. Control Environment	Substantially Effective
2. Procurement Strategy	Largely Ineffective
3. Control Activities	Largely Ineffective
4. Information and Monitoring	Totally Ineffective

The key scope areas relating to Procurement Strategy, Controls Activities and Information and Monitoring were not effectively controlled during the audit period. Therefore, we rated the controls surrounding section 44-related procurement as largely ineffective overall.

The implementation of the audit recommendations contained in this report should improve the overall control effectiveness in this area.

KEY FINDINGS

NSW RFS has recently successfully completed an accreditation process with Procurement NSW was limited to Business As Usual procurement, excluding section 44-related procurement.

We note that over the past few years NSW RFS has centralised and improved certain section 44-related procurement activities in an endeavour to improve controls and reduce the risks of fraud and overcharging occurring in the field. These positive moves provide better and more accountable control over the tasking of operational resources and also reduce the variety of situations in which a fraud might occur. However, we also note that such centralisation may unintentionally increase the potential consequences of any such fraud.

Procurement Strategy

- NSW RFS has developed a formal approach for procuring some major section 44-related expense items, such as with the hire of aircraft and heavy plant (which when combined account for approximately 74% of all section 44-related expenditure). However, section 44-related procurement items have not been formally documented in a category management plan. Such a plan should, where practicable, incorporate analyses of spend, demand, supply, and the market as well as risk assessments. The strategy should be used to determine the most suitable approach for procurement in response to section 44-related events.

Control Activities

- Logistics Requests and associated Orders are raised manually outside of the SAP system, because the existing SAP workflow arrangements may take up to three days to generate a Purchase Order, which does not meet operational requirements. As a result, Logistics Officers have been able to both raise a Logistics Request and issue an Order, and these two duties should be segregated. In some circumstances this control weakness has been combined with further incompatible duties such as certifying goods receipt, coding expenses to the GL, and the creation of unsupported Journal Vouchers. This situation has been further exacerbated in some cases by other control issues such as manual Purchase Orders not accessing the Catalogue and a lack of accountability over stock control and distribution.
- There is a lack of segregation of duties in the procurement process relating to the “Call When Needed” (CWN) services as key aspects of procurement are carried out within the State Air Desk without the involvement of the Procurement unit. Pre-season duties include developing the specifications and conditions for submission, managing its issuance and receipt, evaluating and accepting submissions for inclusion in the register. In-season duties include raising POs, receiving operator invoices, matching orders with POs and invoices, clearing invoices for payment, coding expenditure in the GL, and raising journal vouchers for processing by Accounts Payable.
- There are no contracts for some significant procurement categories, excluding aircraft hire. The largest of these were for the purchases of food/catering from Emergency Management Catering Services and the hiring of equipment from Coates Hire Operations, amounting to almost \$4.8 million and \$3.0 million respectively during the audit period covering 2 years and 8 months. While these amounts should be viewed in the context of the overall section 44-related expenditure of \$236.6 million over the same period, there is no evidence that the procurement of these categories of goods and services were conducted through a competitive and transparent process, ensuring integrity and best value for money.

Information and Monitoring

- There has been a lack of analysis of section 44-related procurement expenditure such as spend analysis by category or supplier, which precludes the recently implemented Procurement Steering Committee or senior management from being able to monitor and review such expenditure.

This report should be read together with *Attachment E: Report Accountability and Responsibility Statement*.

We thank the management and staff of NSW RFS for their co-operation and assistance during the course of the audit and specifically the following personnel who assisted us by providing us with information during a period when key procurement staff were unavailable:

- Wendy Buckett, Procurement officer
- Maryanne Carmichael, Manager Aviation
- Peter Church, Coordinator Heavy Plant Program, Operational Services
- Nadine Gibbon, Financial Systems Accountant
- John Parnaby, acting Chief Procurement Officer
- Kylie Seary, Supervisor Finance
- Mariell Taylor, Infrastructure Projects & Planning
- Steve Yorke, Group Manager Coordination and Response.

DETAILED REPORT OF FINDINGS

1. CONTROL ENVIRONMENT

The audit objective of this section was to assess the adequacy of the control environment relating to section 44-related procurement. The control environment relates specifically to the areas of:

- Ethics
- Management structure
- Delegation of authority, and
- Policies and procedures.

CONTROL EFFECTIVENESS RATING FOR AUDIT OBJECTIVE

Substantially Effective

NSW RFS recently successfully completed a procurement accreditation process with NSW Procurement; however, this was limited to business as usual activities. Section 44-related procurement was excluded from the process. Nonetheless, three of the areas addressed in the accreditation process apply equally to both section 44 and non-section 44-related procurement, i.e. ethics, management structure, and policies & procedures. Delegations of authority, however, differ between routine and section 44-related procurement.

We assessed as adequate the internal controls addressing ethics, management structure, and policies and procedures, with several positive business practices noticed. These included sound ethics-related policies and procedures, training on procurement-specific ethics, and a Procurement Governance structure consisting of internal stakeholders and the Audit and Risk Committee.

1.1 FINDING: AUTHORISATIONS UNDER S.12 AND S.13 OF PF&AA

RISK RATING	Consequence	Likelihood	Rating
	Moderate	Unlikely	Low

ISSUE

The method of documenting authorisation that occurs under sections 12 and 13 of the Public Finance and Audit Act 1983 (PF&AA) could be improved for section 44-related transactions. Section 12 authorisation relates to the approval to commit or incur expenditure. Section 13 authorisation relates to approval to pay an account.

The following information regarding authorisations was determined during the audit:

- NSW RFS Policy **P4.1.1 Financial Delegations** gives financial limits for section 12 authorities both for section 44 expenditure and for general expenditure. This Policy does not provide a financial delegation to an Incident Controller.

- b) The Commissioner's instruction letter to a section 44 Incident Controller (IC) states that the IC is "authorised to approve and [is] responsible for monitoring expenditure that relates directly to firefighting activities or firefighting support..." We were advised that this is considered an operational delegation and not a section 12 authorisation as the IC role may be undertaken by personnel from a number of different 'combat' agencies. We also note that there is substantial documentation attached to the instruction letter to guide the IC in the exercise of this authority.
- c) The IC signs the documents that initiate the purchase of goods and services related to the section 44 incident, i.e. Logistics Requests, Heavy Plant Tasking Forms, and Aircraft Request Forms.
- d) Logistics staff sign the manual Purchase Order (PO) as the "Authorised Officer", which is not defined, but is most likely to mean 'authorised to generate a PO'.
- e) Up until around December 2014, a Logistics Officer and the Group Manager Response and Coordination sign "OK TO PROCESS" on each invoice relating to section 44 incidents. The Logistics Officer advised that her signature represented acknowledgement of goods received, which implied a check of the reasonableness of quantities and prices invoiced. (Note: We were advised that the Group Manager Response and Coordination signature was evidence of him exercising his section 12 authority based on his section 44-specific financial delegation of \$150,000. This view was reinforced by the practice of the Director Operational Services, whose section 44-specific delegation is unlimited, also signing the invoice where the invoice amount exceeds \$150,000.)
- f) From December 2014, invoices have been scanned into Dataline software and routed via the Logistics Officer to a delegated officer for authorisation. Where the delegated officer queries an invoice, it is re-routed to the Logistics Officer for clarification before being returned to the delegate for authorisation.
- g) Accounts Payable posting the batch of invoices in SAP generates the payment file for release.
- h) The Manager of Financial Accounting reviews the payment listing prior to releasing payment using the banking supplier's software.

We were advised that the section 12 authorisation is meant to be exercised retrospectively by the Group Manager Response and Coordination / Director of Operational Services, using a processing arrangement analogous to the processing of a non-order invoice.

The section 13 authorisation also does not appear to be explicitly defined.

The lack of explicit notation regarding these authorisations could lead to some confusion or lack of clarity as to which authorisation is intended by each signature.

CAUSES

- Lack of clear explanatory documentation regarding the S.44 procurement process, its sign-off points, and what each sign-off is intended to achieve in relation to PF&AA and NSW RFS processing requirements.

- Lack of explicit notation regarding sign-offs on various documents used in the section 44 procurement process.
- Use of manual systems outside of SAP for requisitions, Purchase Orders and goods receipt.

RISK/EFFECT

- Potential for section 44 authorisations to not comply with the requirements of PF&AA.
- Potential for authorisations and other financial safeguards to not provide the intended assurances sought by NSW RFS management.

RECOMMENDATIONS

As the use of Dataline has clarified the authorisation process satisfactorily, no further recommendation is offered.

2. PROCUREMENT STRATEGY

The audit objective of this section was to assess the adequacy of the development and approval of the strategy for section 44-related procurement.

CONTROL EFFECTIVENESS RATING FOR AUDIT OBJECTIVE	Largely Ineffective
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As a result of the recent accreditation process in procurement, NSW RFS established a Procurement Framework for Business As Usual procurement, not including section 44-related procurement, consisting of a Procurement Function Strategy, Procurement Management Plan and Category Management Plans.

The Procurement Function Strategy outlines the procurement framework within which NSW RFS operates, in addition to the systems and governance structures in place to support procurement activities.

The Procurement Management Plan sets organisational targets for procurement action across the service.

Category Management plans are developed to assist NSW RFS develop its procurement strategy by analysing aspects such as spend, internal factors - demand and stakeholder analysis, external factors - supply and market analysis, supply positioning, supply relationship management and risk management.

These have been developed for the categories of Radio Communications, Personal Protective Equipment, Information & Communication Technology, Technical and Fleet Services and Equipment.

NSW RFS has put considerable effort into developing approaches for procuring some section 44-related goods and services. Examples include:

- The NAFC contract for aircraft operators.

- The inclusion of aircraft operators on the register for the Call When Needed (CWN) service.
- The heavy plant hire panel arrangement.
- The purchase of materials for setting up base camps.
- The pre-season stockpiling of high volume consumables, such as fire fighting foam, retardant for use by aircraft, meal and snack packs, and bottled water.

However, with the exception of the NAFC contract, these approaches have not been formally documented into a Category Management Plan. As a result, while documentation exists to a varying extent across the range of aforementioned goods and services, some gaps exist regarding typical activities associated with a Category Management Plan.

The section 44-related expenditure during the audit period, raised through manual Orders (which accounts for approximately 70% of section 44-related purchases), is as follows:

SECTION 44-RELATED EXPENDITURE (MANUAL ORDERS ONLY)

EXPENSE CATEGORY	2012/13*	2013/14*	2014/15*†	TOTAL*	%
	\$'000	\$'000	\$'000	\$'000	
Aircraft Hire (NAFC^ & CWN)	43,660	57,551	8,981	110,192	68%
Other	9,253	12,671	1,263	23,187	14%
Meals and Accommodation	4,772	8,391	1,349	14,512	9%
Heavy Plant	3,944	6,123	386	10,453	6%
PME Hire	3,082	1,372	22	4,476	3%
Fuel	165	198	2	365	
Total	\$64,876	\$86,306	\$12,003	\$163,185	100%

**Figures relate to expenditure raised through manual POs and exclude overtime, claims from councils and state agencies.*

† Financial year to date as at 28 February 2015

^ Does not include NAFC standing charges

2.1 FINDING: LACK OF CATEGORY MANAGEMENT PLANS

RISK RATING	Consequence	Likelihood	Rating
	Moderate	Likely	High

ISSUE

There is no process to develop Category Management plans for section 44-related procurement which would address spend analysis, internal demand, stakeholder analysis, supply and market analysis, supply positioning and risk management. The related annual procurement plans for significant procurement which would implement these strategies have also not been established.

There is a lack of available evidence regarding activities usually associated with the development of a strategy such as spend analysis, analysis of internal factors i.e. demand and stakeholder concerns, external factors such as supply and market analysis, supply positioning, supply relationship management and risk management.

The approaches used for the hiring of CWN aircraft and heavy plant are similar and appear to be reasonable since they rely on obtaining services from suppliers who had been pre-selected and pre-qualified through an evaluation process. The strategies relating to the procurement of these goods and services should be formally documented in a Category Management Plan. Other items should then be similarly considered for inclusion in such a Plan, based on financial materiality and operational need.

CAUSES

- There was no process to establish a strategy, incorporating aspects including demand and supply analysis, stakeholder concerns, risk assessments, for section 44-related procurement.
- The processes related to section 44-related procurement were excluded from the accreditation process.

RISK/EFFECT

- Reduced ability to conduct section 44-related procurement in an effective manner and ensure that goods and services are obtained efficiently with best value for money.
- Section 44-related procurement risks may not be identified and mitigated, which may ultimately negatively affect NSW RFS's ability to efficiently, effectively and economically meet its operational objectives.

RECOMMENDATIONS

Recommended for Medium Term Implementation (3-12 months)	
2.1.1	Establish Category Management plans for section 44-related procurement.
2.1.2	Establish annual procurement planning for significant section 44-related procurement.

3. CONTROL ACTIVITIES

The audit objective of this section was to assess the adequacy of the internal control activities relating to section 44-related procurement. These control activities relate specifically to the areas of Requisitions, Purchase Orders, contracting and payment.

CONTROL EFFECTIVENESS RATING FOR AUDIT OBJECTIVE

Largely Ineffective

Most section 44-related procurement is, by its nature, performed on an emergency basis. Such purchases must be made quickly in response to emergency situations in order to meet the combat and support requirements of operational activities. It is therefore more likely that such purchases will not be able to match the level of control exercised over more routine purchasing.

While supplier contracts exist for some high volume, high value items (e.g. NAFC aircraft, fire fighting foam, retardant for use by aircraft) and panel arrangements have been set up for some other items (e.g. CWN aircraft, heavy plant hire), there remains a significant volume and value of section 44-related procurement that are excluded from such arrangements. For these excluded items there may be no formal procurement process in place (i.e. market research, solicitation, evaluation, contracting, etc.). While not all of these items would be suitable for inclusion in a formal procurement process (e.g. accommodation), others such as firefighter meals, snack packs, and bottled water seem well suited to such a process.

Due to the need to respond effectively and in a timely manner in order to support operational demands, a manual system of requisitions and POs is in place. We were advised that the SAP system, which is used for non-section 44-related procurement, is unable to respond quickly enough to meet operational demands in a section 44 scenario, with the following obstacles:

- SAP is role-based and individuals are assigned only one role each. In a section 44 event, numerous staff who have set roles in SAP will assume different Incident Management Team (IMT) roles, which, if accommodated, would require the creation and management of additional roles in SAP.
- The IC's and Logistics Officer's access to SAP for the purpose of raising requisitions and POs may be problematic because:
 - The IC and Logistics Officer may not have access to SAP as they may be an employee of a different 'combat' agency and would therefore not have a pre-established role in SAP
 - The IC and Logistic Officer roles are shift-based and will relate to a number of different individuals during any 24-hour period, and
 - The IC's focus is necessarily on managing fire fighting operations and therefore cannot be expected to be desk-bound for the purpose of approving requisitions.
- The workflow in SAP for approving a requisition does not follow a logical path for S.44 purchases; it requires the NSW RFS's Chief Finance Officer to approve the requisition, instead of the IC who has been delegated the responsibility to procure goods and services in response to the emergency.

- The time taken to get a PO issued via SAP through the routine workflow and delegations set up (reportedly up to 3 days) is impracticable operationally.
- Local suppliers used in an emergency may not be established as a vendor in the Vendor Master File (VMF) in SAP; as such, requisitions and POs cannot be raised in SAP until they are so established in the VMF.
- Suppliers used in an emergency might only be used once and never again; therefore establishment in the VMF and the associated risks may not be justified.

The control activity issues we found that need attention relate to:

- the raising of manual requisitions and POs
- a lack of segregation of duties relating to CWN aircraft hire
- contracting issues and a lack of spend analysis
- sub-classification of section-44 related expenditure.

While not raised as a specific finding below, it should also be noted that our audit testing of expenditure transactions was hampered by our inability to locate a number of invoices in the time available to us to complete the audit. We will refer these items back to NSW RFS for action and future resolution. The audit testing we have been able to complete has informed the findings set out below.

3.1 FINDING: MANUAL REQUISITIONS & PURCHASE ORDERS

RISK RATING	Consequence	Likelihood	Rating
	Extreme	Possible	Critical

ISSUE

As detailed above, it is not operationally practicable at present to issue POs through SAP for section 44-related items. Consequently, a system of manual requisitions and POs is in use, with which a lower standard of control is achievable compared to POs issued through SAP.

The process of raising manual requisitions and POs generally starts with the IC signing the requisitioning document i.e. the manual Logistics Request, Heavy Plant Tasking Form, or Aircraft Request Form. This is then forwarded to the Logistics Section (or the equivalent NSW RFS section for the hire of aircraft hire and heavy plant), which raises a manual PO and sends it to the supplier. The list of manual invoices are maintained on an excel spreadsheet, which is accessible to all staff in Logistics (including Operational Services Directors and Personal Assistants, Operational Services and the Logistics Support team totalling over 400 individuals) and is not password protected.

There are several control issues regarding this process as follows:

Pre-Season Procurement

- Stocks of certain materials (mainly fire-fighting foam, fire retardant, snack and meal packs, and bottled water) are purchased pre-season and stored at the Glendenning warehouse to ensure adequate supplies are available when needed. While this is a sensible operational move, such purchases should not be made using the section 44 procurement process, i.e. a manual PO and lack of effective goods receipt, as there is no need for urgency in such cases.

Purchase Order

- There is no automated control to prevent the duplication of POs.
- There is insufficient control to ensure that a PO is raised only for an approved or valid requisition.
- There is a lack of segregation of duties, as a Logistics Officer can and does raise manual POs even when s/he is the Requesting Officer.

Contracting

- There is the ability to procure off-contract or even on-contract but not through the valid catalogue in SAP. Purchasing through the catalogue would enforce the contracted price.
- There is no control to ensure that a contract is established for suppliers, where appropriate (refer Finding 3.3 on Contracting).

Goods Receipting, Warehousing and Distribution

- By signing "OK TO PROCESS" on the invoice (now certifying in Dataline), Logistics staff are in effect providing the certification of goods received, which Finance staff rely upon to effect payment. However, Procurement staff are not the recipients of these goods and are generally only certifying the reasonableness of the charges, given the nature of the goods ordered.
- Some stocks held at the Glendenning warehouse are not goods receipted in SAP.
- Some suppliers do not provide delivery dockets or invoices to warehousing staff as they use their own vehicles to transfer stock. Warehousing staff deal directly with Logistics Officers based in the Procurement Unit, who placed the original orders, to notifying them of stocks received and shipped. From a fraud control viewpoint, this negates the worth of any goods receipt performed by warehousing staff.

Segregation of Duties

- There is a lack of segregation of duties in general. The degree of this lack of segregation varies from supplier to supplier. For a small number of suppliers, almost the entire process can be controlled by one Logistics Officer (who is also a Procurement Officer), as follows:
 - requesting the purchase
 - raising the manual PO and sending it to the supplier

- coding the expenditure to the general ledger (GL)
- signing the invoice to certify its reasonableness, including goods received (particularly pertinent for some stockpiled items at the Glendenning warehouse, where the warehouse is provided with neither orders, delivery dockets nor invoices to verify whether the quantity received is equal to the quantity ordered)
- initiating issues from the warehouse (particularly pertinent for some suppliers who transport their own stocks)
- raising and approving a JV to allocate expenditure to a specific section 44 event (refer Finding 3.5 on Classification of section 44-related procurement).

There are related issues regarding payment of manual POs, which are discussed in finding 3.4.

CAUSES

- Requisitions and POs are processed manually outside of SAP due to system limitations.

RISK/EFFECT

- POs could be raised without a valid or approved requisition.
- Prices over and above contracted amounts could be agreed upon and paid.
- Payments could be made for invoices for which there is no valid evidence of receipt of goods or services, or valid order or valid requisition.
- Potential for fraud and corruption due to the lack of segregation duties of the Logistics/Procurement Officer.
- Duplicate orders could be placed.
- Inability to quantify commitments.

RECOMMENDATIONS

Recommended for Immediate Implementation (< 3 months)	
3.1.1	Ensure that the S.44 purchasing process is not used for pre-season bulk purchases, i.e. use the normal SAP process. (We note the Commissioner's memorandum of 19 March 2015 that directs the SAP process be so used.)
3.1.2	Segregate the role of "Requesting Officer" from the profile of the Procurement Officer (who raises the PO). (We note the Commissioner's memorandum of 19 March 2015 that directs Emergency Orders only to be created on submission of an authorised Logistics Request.)
Recommended for Medium Term Implementation (3-12 months)	
3.1.3	Perform an efficiency and effectiveness review of the warehousing function.

Recommended for Long Term Implementation (12-24 months)	
3.1.4	<p>Revisit the process workflow in SAP to investigate ways to incorporate the raising and approval of requisitions and POs and to streamline the workflow in terms of the:</p> <ul style="list-style-type: none"> • appropriateness of persons approving the requisitions • expediency of raising POs • certification of the receipt of goods and services, and • adequate segregation of duties <p>Should this prove infeasible, seek alternative solutions, preferably technology based, that address these issues.</p>
3.1.5	Ensure warehouse personnel do not accept receipt of goods without a delivery docket or invoice.
3.1.6	Upgrade and/or better utilise the SAP Inventory module for stock control purposes.

3.2 FINDING: HIRING CWN AIRCRAFT

RISK RATING	Consequence	Likelihood	Rating
	Major	Possible	High

ISSUE

The State Air Desk (SAD) is involved in all the key aspects of procurement relating to the hire of aircraft for section 44 events. The two categories of services relating to aircraft hire are Call When Needed (CWN) and contracted services through the National Aerial Firefighting Centre (NAFC).

SAD conducts the procurement of CWN services without the involvement of the Procurement Unit and without adequate segregation of duties. In particular, SAD carries out the following duties:

Pre-Season

- Develops the request for Expression of Interest (EOI) detailing the specifications and conditions for submission
- Manages the issuing of the EOI and the receipt of submissions from interested operators
- Evaluates the submissions and selects those to be included on the register
- Accepts the submissions, sends the acceptance letter to the operators and includes them on the register

In-Season

- Responds to the request (generally written) from the IC for CWN services, selects and assigns the aircraft
- Raises the Aircraft Tasking Form (effectively the PO) and sends it to the operator ordering the service
- Receives the invoice and evidence of receipt of service from the supplier
- Matches the invoice to the Aircraft Tasking Form (PO) and checks for evidence of receipt of service
- Codes the expenditure into the general ledger (GL)
- Clears the invoice for payment before submitting it to the Director of Operational Services
- Raises Journal Vouchers (JV) for processing by Accounts Payable.

We noted weaknesses in the procurement process for CWN services, including the following.

- While the NSW RFS has developed a practical strategy in relation to the establishment of the CWN register and the selection of a particular aircraft in response to an emergency, there is no documented evidence of the activities usually associated with developing such a strategy, e.g. spend analysis, internal demand, market/supply analysis, supply relationship management and risk management. In addition, although prices are requested in the EOI submissions, these prices do not determine whether or not an operator is included on the register. Staff at the SAD advised that the decision for inclusion on the register is driven by operational demands, in which prices cannot be the only determining factor and must be considered alongside immediacy and capacity. This approach has however not been documented in a formal strategy and appropriately approved (refer finding 2.1: Lack of Strategy).
- While the SAD advised that prices submitted annually by aircraft operators during the EOI process are reviewed for reasonableness, any such pricing analysis is not formally documented. In particular, we would expect documentation of the reasonableness of prices relating to:
 - the types of aircraft or service to be supplied
 - individual cost components e.g. personnel, operating, management, finance, licences, charges and taxes, etc.
 - price increases from year to year.
- There are no approvals of prices other than that of the Manger Aviation, SAD.
- SAD staff conducting procurement are not trained in procurement practices.
- There are no contracts for any of the operators with regards to the CWN service (refer Finding 3.3: Lack of contracts for significant procurement).

The value of manual POs raised for the hire of aircraft relating to CWN and NAFC contracted services (operating charges only) for section 44-related procurement amounted to \$110 million during the audit period of 2 years and 8 months. (The standing charges related to NAFC contracted services are processed through SAP and as such, not included in this amount.)

Although SAD management provides reports to NAFC on aircraft use across the national fleet, it cannot currently report on the proportion of aircraft expense attributable to CWN services versus NAFC services (also refer Finding 4.1: Lack of information and monitoring). We have been informed that the new on-line tool ARENA Registry should provide the ability to determine the breakup of CWN and NAFC expenses.

CAUSES

- Decisions for inclusion on the CWN register is technical and operationally driven. The Procurement unit is not perceived to have adequate technical skills to be involved in the procurement process for aviation.
- Reliance on aircraft operators to provide a competitive set of prices.
- Decision to use an operator is largely driven operationally and not financially.
- No strategy for the procurement of services related to the hiring of aircraft for CWN services.

RISK/EFFECT

- The principles of public procurement – integrity, transparency, competition, fairness – are compromised.
- Best value for money may not be achieved in the hiring of aircraft for CWN service.
- Potential for fraud and corruption due to the lack of segregation of duties.

RECOMMENDATIONS

Recommended for Immediate Implementation (< 3 months)	
3.2.1	Document the performance of the price comparisons, analysis, discussions and decisions taken in relation to all aircraft operators who provide CWN services.
Recommended for Medium Term Implementation (3-12 months)	
3.2.2	Involve the Procurement Unit in the development of the EOI for CWN services, the process of requesting and receiving submissions, their assessment (including price analysis), evaluation and inclusion on the register.
3.2.3	Adequately segregate duties for CWN services, specifically the receipt of invoices, matching of invoices, goods receipt and tasking forms, the clearance of invoices for payment, and coding into the GL account codes.
3.2.4	Use the results of the aircraft operator price analysis to inform NSW RFS in relation to the formulation of its strategy regarding the procurement of CWN services and in its negotiations with potential suppliers.

3.3 FINDING: CONTRACTING AND SPEND ANALYSIS

RISK RATING	Consequence	Likelihood	Rating
	Major	Likely	High

ISSUE

The procurement accreditation documentation details a process to develop Contract Management plans for non-section 44-related procurement. This helps to ensure the appropriate management of contracts and of the vendors supplying goods and services through those contracts. The Contract Management plans addressed various elements of contract management, such as the appropriateness of the contract, the establishment of vendors in SAP, a contracts register tracking important contractual milestones, adequacy of insurance policies, etc. As mentioned previously, the accreditation process focussed on Business As Usual processes and excluded section 44-related procurement.

Aircraft Hire

We understand that NSW RFS uses in aerial firefighting activities over 50 aircraft operators and over 100 Call When Needed (CWN) aircraft.

Following an evaluation of the operator submissions in response to the annual EOI for CWN service, a letter of acceptance detailing the services, aircraft and prices is sent out to operators who meet the minimum requirements. There is however no formal contract with the operator addressing the terms and conditions of the service.

When the operator is actually tasked with a specific assignment, an Aircraft Tasking Form, which in effect is the PO, is sent out. This is a one-page document detailing the task assigned; however there are no terms and conditions of contracting attached to this document. This differs from the services for the NAFC where a formal contract has been established with the operator; NSW RFS being a 'member' to that contract. (Of the operators used for the CWN service, many also provide contracted services through NAFC.)

The total amount expended on the CWN service was not readily available as the \$110 million expenditure included in the "Aircraft hire" category of section 44-related procurement over the audit period of 2 years and 8 months includes both CWN charges and operating charges for NAFC contracted services.

A related issue is the approval of operators to be included in the register for the CWN service. Currently, the Manager Aviation, signs the letter of acceptance. The delegations of authority issued by the Commissioner do not however address this function. There are no reviews or approvals other than that of the Manager Aviation for including aircraft operators to be on the register.

Major Suppliers other than Aircraft Hire

The spend analysis on section 44-related expenditure sourced from manual POs, apart from the suppliers of aircraft services, identified the following major suppliers with which there were no contracts:

SUPPLIER	2012/13	2013/14	2014/15†	TOTAL
	\$'000*	\$'000*	\$'000*	\$'000*
Emergency Management Catering		3,383	1,501	4,884
Coates Hire Operations Pty Ltd	948	2,096		3,044
L.E Whittaker & Sons Pty Ltd	152	797		949
Quartermaster Australia Pty Ltd	399	374		773
Gracey's earthmoving & excavations		650		650
K2 Tech Solutions Pty Ltd	559			559
Total	\$2,058	\$7,300	\$1,501	\$10,859
% of section 44 related procurement	3.2%	8.5%	12.5%	6.7%

*Figures relate to expenditures raised through manual POs and exclude overtime, government agencies and claims from councils and state agencies.

† Financial year to date as at 28 February 2015

While no contracts were in place for these suppliers, each PO sent to the supplier includes terms and conditions which address aspects such as waiver, price, warranties, delivery, defective goods, payment, insurances, compliance with legislation, indemnity and termination.

In addition, there is no evidence that the procurement of goods and services from these suppliers were conducted through a process that was competitive, fair, transparent, and with integrity to meet the procurement objectives and ensure best value for money. This was the case even when the same supplier was used in consecutive years i.e. Emergency Catering Management and Coates Hire Operations Pty Ltd.

There is a contract register maintained on an excel spreadsheet by the Procurement unit. We noted that the contract with PC Australasia Pty Ltd established on 4 April 2010 was due to expire on 30 September 2014. As at the date of the audit, we were advised that this contract had not been renewed. A total of \$269,579 has been purchased from the supplier since the contract expiry. We have been informed by NSW RFS management that PC Australasia Pty Ltd, which is the sole supplier for this particular product, has refused to sign a contract.

Hire of Heavy Plant

The processes for hiring heavy plant appear to be generally well controlled and we were advised that NSW RFS has significantly improved these processes over the last 2 years. A panel of suppliers located all around the state has been created and can be brought into use as required.

Currently there are 446 suppliers on the RFS heavy plant register. None of these have formal contracts with NSW RFS, only deeds of agreement.

While not many of the suppliers (in all the categories mentioned above) would reach a spend threshold that warrants consideration of a formal contracting arrangement, others might. Such suppliers could form a strategic element of the NSW RFS fire fighting response and therefore proper due diligence regarding them would be warranted. A comprehensive due diligence exercise would include ascertaining the directorship and ownership of the company, and the capability – financial and technical – of the supplier, etc. We were advised that such due diligence is normal practice for contracted suppliers.

CAUSES

- During an emergency, it is not practicable to engage in the full procurement process.
- Lack of procurement planning, which would have anticipated the need and planned for some procurement activity.
- No analysis was performed on the expenditure of section 44-related procurement and as such, major suppliers had not been identified.

RISK/EFFECT

- NSW RFS is exposed to various risks including legal, operational and commercial risks that may negatively affect its ability to respond adequately to a section 44 event.
- Conflicts of interest of staff and associated fraud and corruption risks may not be identified as no due diligence is conducted on these high-volume suppliers.
- NSW RFS might not have obtained best value for money.
- Procurement in NSW RFS risks being perceived as not adhering to the principles of public procurement of integrity, competition, transparency, fairness and best value for money.

RECOMMENDATIONS

Recommended for Immediate Implementation (< 3 months)	
3.3.1	Perform a spend analysis in order to identify major suppliers.
3.3.2	Establish contracts with aircraft operators for the CWN service.
3.3.3	Strengthen controls over the contracts register and ensure that all expired contracts are renewed, where applicable.
Recommended for Medium Term Implementation (3-12 months)	
3.3.4	Identify those major suppliers with whom there is no current contract and consider tendering for the goods procured.
3.3.5	Establish a process to regularly analyse expenditure in order to identify suppliers whose spend exceeds a threshold required to review the procurement strategy (e.g. the need to tender) and establish a contract.
3.3.6	Establish contract management plans for section 44-related procurement.

3.4 FINDING: CONTROLS OVER PAYMENT

RISK RATING	Consequence	Likelihood	Rating
	Moderate	Possible	Medium

ISSUE

We noted earlier in Finding 3.1 that the operationally necessary use of manual requisitions and POs creates a lower standard of achievable control. To some degree those related control weaknesses also flow through to controls over payment. This mainly relates to the following items:

- It can be impossible in some instances to perform the standard 3-way matching procedure typical of automated POs, i.e. matching the PO and certification of performance of service to the invoice. This is because some services are procured in situations where the duration or extent of the services required are not fully known at the time of ordering, e.g. the engagement of heavy plant for the construction of containment lines, the tactical engagement of aircraft, and accommodation for fire crews. As a result, the quantities ordered initially may not match the quantities actually required or delivered.
- The certification of performance of service may be made by Logistics Officers without direct knowledge of whether the services have indeed be provided exactly as requested or required. This is because:
 - services may be delivered directly to staging areas or other locations with urgency, so a contemporaneous acknowledgement of receipt may be problematic; or
 - invoices may not be received until well after the services have been delivered and the relevant Logistics Officer may no longer be easily available for confirmation of services performed.
- Until recently, while manual checks were in place, there was no automated control to ensure that the Delegation of Authority is appropriately exercised as approval is done manually for the requisition and payment (sections 12 and 13 of PF&AA, respectively). We note that Dataline software is now in use and that this involves scanning invoices and automatically routing them to an officer with sufficient section 12 authority to authorise the invoice. However, we also note that the software does not aggregate invoices by PO. Note also the following related points:
 - We observed that it is not uncommon for one PO to generate multiple invoices, especially where goods are ordered in bulk but delivered in batches.
 - While we were advised that invoices generated as a result of the issue of a manual PO are treated as non-order invoices, it may be that this situation does not conform with the intention of section 12 and leaves NSW RFS vulnerable to the practice of order-splitting in order to circumvent delegation limits. For example, our testing included a manual PO for \$165,000 plus GST being issued where the multiple invoices related to this PO were all authorised for payment by an individual with delegated authority of \$150,000. While we believe that this case was most likely unintentional, it does demonstrate the possibility for deliberate order-splitting to occur. However, we also

note that these invoices, like the vast majority of high value invoices, was for a pre-season bulk purchase and it is intended that such bulk purchases will be made through a SAP PO in future, which obviates the risk.

CAUSES

- An inability to pre-authorise most expenditure in an emergency situation means that invoices are essentially treated as non-order invoices.
- Requisitions and POs are raised manually, outside of SAP.

RISK/EFFECT

- Payments may be made for goods and services which were not received or which were received in lesser quantities or defective quality or not to the specifications of the order.
- Slight potential for some payments to be approved by staff exceeding their Delegation of Authority.

Note: We were advised by NSW RFS that it is not considered feasible to conduct a three-way match for manual POs due to the difficulties noted above and the volume of transactions. We were also advised that NSW RFS is planning to examine the feasibility of developing a software solution for this process with a view to further mitigating the risks detailed above.

RECOMMENDATION

No additional recommendation is made pending NSW RFS examining the feasibility of developing a software solution for this process.

3.5 FINDING: CLASSIFICATION OF SECTION 44-RELATED PROCUREMENT

RISK RATING	Consequence	Likelihood	Rating
	Inconsequential	Likely	Low

ISSUE

An item of expenditure is usually classified under a specific section 44 event if it is initiated through a requisition (i.e. manual Logistics Request or Heavy Plant Tasking Form or Aircraft Request Form) signed by the IC.

However entries can be made directly into the GL account codes related to a specific section 44 event through Journal Vouchers (JV). Accounting entries recorded through this method are usually those related to:

- Accruals for expenditure including overtime and the associated reversals
- Expenditures that cannot be allocated to a specific section 44 event but is required for operational activities of NSW RFS relating to section 44 events

- Pre-season bulk purchases of items such as snack packs and foam
- Corrections for mis-codings.

Controls over the accuracy of the section 44 GL account codes are weak given the following issues:

- There is no process to ensure that some JV requests from the Procurement Unit are supported. Notwithstanding this, JV requests are processed and posted without evidence of supporting documentation.
- There is a lack of segregation of duties as a Procurement Officer is able to control the entire process from the raising of manual POs and sending them out, coding the invoice to the GL account code, requesting the creation of JV without supporting documentation and signing the invoice to certify its reasonableness.
- Audit analysis showed that there are numerous potential mis-codings to the GL account codes. An analysis of the expenditure categories of section 44-related GL codes showed that there is a category of "Other" which is not insignificant in amount as follows:

EXPENSE CATEGORY	2012/13	2013/14	2014/15†	TOTAL
	\$'000*	\$'000*	\$'000*	\$'000*
'Other', GL code 560430	\$9,253	\$12,671	\$1,263	\$23,187
% of section 44-related procurement	14%	15%	11%	14%

*Figures relate to expenditures raised through manual POs and exclude overtime, claims from councils and state agencies

† Financial year to date as at 28 February 2015

An analysis by supplier of the expenditure recorded in 'Other' indicates that some larger suppliers are those related to the supply of equipment, which may indicate incorrect coding. Note that we have been advised that retardant and foam expenses are correctly classified in "other".

SUPPLIER	2012/13	2013/14	2014/15†	TOTAL	NATURE
	\$'000*	\$'000*	\$'000*	\$'000*	
PC Australasia Pty Ltd	2,680	2,628	253	5,561	Retardant
Chubb Fire & Security Ltd	1,989	2,162	456	4,607	Foam
Forest Systems Pty Ltd	1,053	495		1,548	Foam
Coates Hire Operations Pty Ltd	83	1,168	15	1,266	Equipment Hire
L.E Whittaker & Sons Pty Ltd	152	797		949	Equipment
K2 Tech Solutions Pty Ltd	559			559	Equipment Hire
Stewart & Heaton	269	277		546	Clothing
Kereela Aviation		484		484	Aircraft
Emergency Management Catering			341	341	Catering/Freight
Total	\$6,785	\$8,011	\$1,065	\$15,861	
% of 'Other', GL code 560430	73%	63%	84%	68%	

* Figures relate to expenditures raised through manual POs and exclude overtime, claims from councils and state agencies

† Financial year to date as at 28 February 2015

Note that section 44 claims from the National Disaster Relief and Recovery Arrangements (NDRRA) are audited independently in order to ensure that they are valid and directly attributable to section 44 events.

CAUSES

- The use of manual systems to record transactions. POs are first recorded on the excel spreadsheet, then coded to the GL upon receipt of the invoice.
- No analysis of the expense category of "Other".

RISK/EFFECT

- The sub-categorisation of section 44 expenditure may be inaccurate.

RECOMMENDATIONS

Recommended for Immediate Implementation (< 3 months)	
3.5.1	Establish a referencing system for all Journal Vouchers to the supporting documentation for those raised by the Procurement Section.
3.5.2	Only post Journal Vouchers that are adequately supported.

4. INFORMATION AND MONITORING

The audit objective of this section was to assess the adequacy of the internal controls over information relating to, and monitoring of, section 44-related procurement.

CONTROL EFFECTIVENESS RATING FOR AUDIT OBJECTIVE	Totally Ineffective
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The procurement governance structure does not explicitly analyse much section 44-related procurement activity.

NSW RFS recently put in place a procurement governance structure as part of the accreditation process. This governance structure consists mainly of the Commissioner, Senior Management Team, Audit and Risk Committee, Procurement Strategy Steering Committee, etc. The main tool for the monitoring of procurement is the Procurement Strategy Steering Committee. Its terms of reference states that the committee is *"part of the RFS' Procurement governance framework which aims to support the Agency in their ability to understand their procurement profile and performance to enable effective planning at an organisational level."*

The roles of the committee include reviewing the Annual Procurement Management Plan, and monitoring and reviewing spend data, demand drivers and forecast spend for the NSW RFS. The Committee will review the data and information collection process to ensure consistency in reporting to the senior management team and to NSW Procurement.

They will analyse risks and issues identified within Procurement activities and provide recommendations to the team. The committee is required to meet quarterly, but has been meeting more frequently than that.

4.1 FINDING: LACK OF ANALYSIS OF SECTION 44-RELATED PROCUREMENT

RISK RATING	Consequence	Likelihood	Rating
	Major	Possible	High

ISSUE

There is a lack of information analysis regarding some expenditure categories that would include significant section 44-related procurement. This lack of analysis precludes management from being able to monitor and review this expenditure in order to make informed decisions.

Some examples of expenditure where such analysis could prove useful are as follows:

- The amount spent in the category of "Aircraft hire," totalling \$110 million (or 68% of total section 44-related expenditure) over the audit period of 2 years and 8 months, has not been analysed to determine the proportion of CWN vs. NAFC costs.
- The amount spent in the category of "Other" totalling \$23 million (or 14% of total section 44-related expenditure) over the audit period, for which there is no evidence of detailed analysis, although we have been advised that some analysis occurs.
- We noted that there are some suppliers that have been paid millions of dollars over the audit period but who have neither been signed to a contract nor would it appear that there is available evidence of procurement analysis to determine whether value for money is being obtained (refer to finding 3.3: Contracting and Spend analysis).

Although a Procurement Strategy Steering Committee has recently been established, issues related to section 44 procurement are not specifically addressed. Information provided to the committee does not segregate or specifically detail section 44-related procurement expenditure. For example, no information has yet been provided related to section 44-related procurement on total spend, expenditure trends, spend analysis by category of expenditure or by supplier, supplier performance or problems with performance of contracts. A review of the latest minutes of the committee meeting confirm this.

While we agree that analysis of procurement activity should generally relate to NSW RFS activity as a whole, due to the potentially large volumes of expenditure that section 44-related activity can generate and the particular control challenges it engenders, we believe that some section 44-specific analysis should prove worthwhile.

CAUSES

- No process has been established to analyse information related to section 44-related procurement.

RISK/EFFECT

- Management is unable to identify the relevant risks and take appropriate action for effective and efficient procurement to support section 44 events and protect against fraudulent activity.

RECOMMENDATIONS

Recommended for Immediate Implementation (< 3 months)	
4.1.1	Provide adequate detailed information relating to section 44-related procurement to the Procurement Strategy Steering Committee for its review and appropriate action.


END OF REPORT

ATTACHMENT A – DETAILED AUDIT OBJECTIVES AND SCOPE

OBJECTIVES

The overall objective of this audit is to provide reasonable assurance to NSW RFS management regarding the adequacy and the effectiveness of the internal controls over the procurement process under section 44. Specifically, the audit, in relation to section 44 procurement:

1. Assessed the adequacy of the design of the internal controls and the effectiveness of their implementation;
2. Identified any non-compliance with the NSW RFS Standard Operating Procedures (SOPs) and section 12 and 13 of the Public Finance and Audit Act 1983 (section 12 & 13) as noted in the sample tested;
3. Determined whether there is scope for improving the organisation's current processes and internal controls.

SCOPE

The approach for this audit was risk based. The audit reviewed the adequacy and effectiveness of the internal controls and ascertained the extent of compliance of actual procedures adopted with the SOPs and section 12 & 13 in the sample of section 44 procurement actions selected.

We performed the following procedures related to section 44 procurement actions:

1. Reviewed the current processes and internal controls from procurement planning to contract management in order to identify any weaknesses and make the relevant recommendations for improvements.
2. Identified any purchases in the sample transactions that were incorrectly classified as section 44 purchases (this included purchases undertaken in anticipation of a section 44 declaration).
3. Determined the degree to which the sampled transactions complied with the relevant SOPs.
4. Ascertained the extent to which the financial delegations were properly exercised in accordance with the approved Delegation of Authorities and section 12 & 13.

We will also use the testing results above to make additional reportable observations on the effectiveness of the recent changes to the SOP (since December 2014) relating section to 44 procurement, which NSW RFS implemented as a result of the recommendations of the Audit Office of NSW.

The period under review covered the financial years ended 30 June 2013, 30 June 2014, and 30 June 2015 (up to the date of the commencement of the review).

ATTACHMENT B – ACTION PLAN FOR IMPLEMENTING RECOMMENDATIONS

No.	Recommendations	Risk Rating of Finding	Management Response(s)	Responsible Manager(s)	Target Implementation Date(s)
2. PROCUREMENT STRATEGY					
Recommended for Medium Term Implementation (3-12 months)					
2.1.1	Establish Category Management plans for section 44-related procurement.	HIGH	<p>Agree.</p> <p>RFS has draft category management plans in 5 high spend areas being Fleet, Specialised Equipment, ICT, Communications and PPE. Further category management plans are under development for Heavy Plant and Aviation.</p> <p>The RFS will analyse 'high spend' s44 procurements and undertake a gap analysis against existing category management plans. Any identified items will either be incorporated into existing plans or new plans developed.</p>	Director, Response & Coordination / Director, Assets & Infrastructure	<p>June 2016</p> <p>June 2016</p>
2.1.2	Establish annual procurement planning for significant section 44-related procurement.	HIGH	<p>Agree.</p> <p>All finalised category management plans incorporate implementation plans including appropriate procurement control provisions.</p> <p>For the coming fire season, a procurement strategy for fire ground sustenance (snack packs) will encompass purchases through an AFAC agency (Victorian Country Fire Authority) existing contract. This is an interim procurement strategy to ensure effective business continuity pending completion of category management plans.</p>	Director, Assets & Infrastructure	<p>June 2016</p> <p>August 2015</p>

No.	Recommendations	Risk Rating of Finding	Management Response(s)	Responsible Manager(s)	Target Implementation Date(s)
3. CONTROL ACTIVITIES					
Recommended for Immediate Implementation (< 3 months)					
3.1.1	Ensure that the S.44 purchasing process is not used for pre-season bulk purchases, i.e. use the normal SAP process. (We note the Commissioner's memorandum of 19 March 2015 that directs the SAP process be so used.)	CRITICAL	<p>Agree.</p> <p>The Commissioner of NSW RFS has issued the directive outlining that pre season purchasing must be undertaken through the SAP E-Procurement system and that these pre season requirements follow the identified processes and associated procurement practices.</p>	Director, Response & Coordination	Implemented
3.1.2	Segregate the role of "Requesting Officer" from the profile of the Logistics Officer (who raises the PO). (We note the Commissioner's memorandum of 19 March 2015 that directs Emergency Orders only to be created on submission of an authorised Logistics Request.)	CRITICAL	<p>Agree</p> <p>The RFS will revise the function of the State Logistics Officer (SLO) within the State Operations Centre making it clear that an SLO must be sourced from a business unit outside of the procurement function.</p> <p>A Standard Operational Guideline for the 'end to end' process for procurement of s44 goods and services and costing will be developed and implemented. This guide will make it explicit that there needs to be a segregation of duties and roles.</p>	<p>Director, Response & Coordination</p> <p>Director, Response & Coordination</p>	<p>August 2015</p> <p>August 2015</p>

No.	Recommendations	Risk Rating of Finding	Management Response(s)	Responsible Manager(s)	Target Implementation Date(s)
Recommended for Medium Term Implementation (3-12 months)					
3.1.3	Perform an efficiency and effectiveness review of the warehousing function.	CRITICAL	Agree. A review of warehouse operations including the development of a documented procedures manual, an assessment of resourcing and functionality to ensure efficient and effective operations will be undertaken. The RFS is in the process of implementing SAP warehouse management to the Glendenning warehouse location. This implementation will be complete by 1 July 2015.	Director Operational & Mitigation Support Services Executive Director, Infrastructure Services	September 2015 July 2015
Recommended for Long Term Implementation (12-24 months)					
3.1.4	Revisit the process workflow in SAP to investigate ways to incorporate the raising and approval of requisitions and POs and to streamline the workflow in terms of the: <ul style="list-style-type: none">• appropriateness of persons approving the requisitions• expediency of raising POs• certification of the receipt of goods and services, and• adequate segregation of duties. Should this prove infeasible, seek alternative solutions, preferably technology based, that address these issues.	CRITICAL	Agree The NSW RFS will release a Request for Quote for assistance in mapping the relevant purchase to payment process, and examining technological solutions to provide an effective solution which provides effective control, transparency and segregation of duties while maintaining operational effectiveness for use in emergency situations.	Chief Financial Officer /Executive Director Infrastructure Services	June 2015 (Engagement to be completed) August 2016 (Solution to be implemented)

No.	Recommendations	Risk Rating of Finding	Management Response(s)	Responsible Manager(s)	Target Implementation Date(s)
3.1.5	Ensure warehouse personnel do not accept receipt of goods without a delivery docket or invoice.	HIGH	<p>Agree.</p> <p>An interim State Warehouse Inventory Management - Operations policy will be developed and implemented.</p> <p>A review of warehouse operations including the development of a documented procedures manual, an assessment of resourcing and functionality to ensure efficient and effective operations will be undertaken.</p> <p>The RFS is in the process of implementing SAP warehouse management to the Glendenning warehouse location. This implementation will be complete by 1 July 2015.</p>	<p>Director Operational & Mitigation Support Services</p> <p>Executive Director, Infrastructure Services</p>	<p>Implemented</p> <p>September 2015</p> <p>July 2015</p>
3.1.6	Upgrade and/or better utilise the SAP Inventory module for stock control purposes.	HIGH	<p>Agree.</p> <p>SAP Enterprise Asset Management (EAM) is scheduled for agency wide implantation by 1 July 2015. This will include the inventory module for stock control purposes enabling goods allocation to brigades, appliances or individuals.</p> <p>The RFS is in the process of implementing SAP warehouse management to the Glendenning warehouse location. This implementation will be complete by 1 July 2015.</p>	Executive Director Infrastructure Services	July 2015

No.	Recommendations	Risk Rating of Finding	Management Response(s)	Responsible Manager(s)	Target Implementation Date(s)
Recommended for Immediate Implementation (< 3 months)					
3.2.1	Document the performance of the price comparisons, analysis, discussions and decisions taken in relation to all aircraft operators who provide CWN services.	HIGH	Agree. RFS will document an analysis of CWN services covering price, capacity to respond and geographic disbursement.	Director, Response & Coordination Director, Assets and Infrastructure	July 2015
Recommended for Medium Term Implementation (3-12 months)					
3.2.2	Involve the Procurement Unit in the development of the EOI for CWN services, the process of requesting and receiving submissions, their assessment (including price analysis), evaluation and inclusion on the register.	HIGH	Agree. RFS Aviation will convene a panel comprising a representative from the Aviation Unit, the Procurement Unit and a suitably qualified aviation industry person as an independent. The new National Aerial Firefighting Centre aviation data base, ARENA, will provide an online facility to manage the lodgement of CWN EOI's.	Director, Response & Coordination	July 2015
3.2.3	Adequately segregate duties for CWN services, specifically the receipt of invoices, matching of invoices, goods receipt and tasking forms, the clearance of invoices for payment, and coding into the GL account codes.	HIGH	Agree An Operational Guideline for the 'end to end' process of engagement of aircraft to costing of aviation services with appropriate segregation of duties and roles will be developed and implemented.	Director, Response and Coordination	July 2015

No.	Recommendations	Risk Rating of Finding	Management Response(s)	Responsible Manager(s)	Target Implementation Date(s)
3.2.4	Use the results of the aircraft operator price analysis to inform NSW RFS in the formulation of its strategy regarding the procurement of CWN services and in its negotiation with potential suppliers.	HIGH	Agree The RFS is currently developing an Aviation Category Management plan. This plan will address a spend analysis, internal demand, stakeholder analysis, supply and market analysis, supply positioning and risk management for aviation procurement. The plan will provide an implementation plan including appropriate procurement control provisions.	Director, Response & Coordination Director, Assets & Infrastructure	December 2015
Recommended for Immediate Implementation (< 3 months)					
3.3.1	Perform a spend analysis in order to identify major suppliers.	HIGH	Agree. Since 2014 basic spend data has been provided to the Corporate Executive Group and the Procurement Strategy Steering Committee through the procurement activity summary report. In May 2015 a spend summary across the entire procurement activity including s44 was undertaken. This data is currently being analysed. A standard SAP Business Intelligence report is being developed to provide timely, accurate and accessible reporting across the various business units.	Executive Director Infrastructure Services	May 2015 July 2015
3.3.2	Establish contracts with aircraft operators for the CWN service.	HIGH	Partially Agree. A suitably qualified procurement consultant will be engaged to review the CWN EOI supplier agreements to ensure they clearly detail the services, costs and terms & conditions of the service required.	Director, Response and Coordination Director, Assets and Infrastructure	June 2015

No.	Recommendations	Risk Rating of Finding	Management Response(s)	Responsible Manager(s)	Target Implementation Date(s)
3.3.3	Strengthen controls over the contracts register and ensure that all expired contracts are renewed, where applicable.	HIGH	<p>Agree.</p> <p>The current contracts register is operated on a spreadsheet. In the interim, the contacts register will be review quarterly by the Procurement Strategy Steering Committee.</p> <p>Within the Justice Cluster agencies use the SAP ARIBA contracts management system. The RFS will pursue a collaborative implementation, leveraging off the Justice Cluster arrangements, to improve our systems.</p>	<p>Director, Assets & Infrastructure</p> <p>Chief Information Officer</p>	<p>August 2015</p> <p>July 2016</p>
Recommended for Medium Term Implementation (3-12 months)					
3.3.4	Identify those major suppliers with whom there is no current contract and consider tendering for the goods procured.	HIGH	<p>Agree.</p> <p>The RFS Procurement Strategy Steering Committee will review a spend analysis quarterly. The analysis will include an evaluation of procurement thresholds relative to spend and recommend development of contracts where the threshold has been exceeded.</p>	Director, Assets & Infrastructure	August 2015
3.3.5	Establish a process to regularly analyse expenditure to identify suppliers whose spend exceeds a threshold required to establish a contract.	HIGH	<p>Agree.</p> <p>The RFS Procurement Strategy Steering Committee will review a spend analysis quarterly. The analysis will include an evaluation of procurement thresholds relative to spend and recommend development of contracts where the threshold has been exceeded.</p>	Director, Assets & Infrastructure	August 2015

No.	Recommendations	Risk Rating of Finding	Management Response(s)	Responsible Manager(s)	Target Implementation Date(s)
3.3.6	Establish contract management plans for section 44-related procurement.	HIGH	<p>Agree.</p> <p>RFS has draft category management plans in 5 high spend areas being Fleet, Specialised Equipment, ICT, Communications and PPE. Further category management plans are under development for Heavy Plant and Aviation.</p> <p>The RFS will undertake a gap analysis of high spend s44 procurements to determine what goods and services are procured that are not included in these plans and seek to incorporate those into existing plans or develop a s44 specific plan. It is noted the driver for this will be spend.</p> <p>The first step is the development of category management plans which will then inform the contract management plan.</p> <p>Contracts will be considered where aspects of s44 procurement spend exceed threshold and deliver value for money solutions.</p>	<p>Director Response & Coordination</p> <p>Director Operational & Mitigation Support Services</p> <p>Director, Assets and Infrastructure</p>	<p>Category Management Plan by August 2015</p> <p>Gap Analysis by September 2015</p> <p>Process complete June 2016</p>
Recommended for Immediate Implementation (< 3 months)					
3.5.1	Establish a referencing system for all Journal Vouchers to the supporting documentation for those raised by the Procurement Section.	LOW	<p>Agree.</p> <p>The Financial Services Branch will require supporting documentation on all Journal Vouchers, irrespective of their source. Unsupported vouchers will not be accepted</p>	Chief Financial Officer	Implemented

No.	Recommendations	Risk Rating of Finding	Management Response(s)	Responsible Manager(s)	Target Implementation Date(s)
3.5.2	Only post Journal Vouchers that are adequately supported.	LOW	Agree. The Financial Services Branch will require supporting documentation on all Journal Vouchers, irrespective of their source. Unsupported vouchers will not be accepted	Chief Financial Officer	Implemented
4. INFORMATION AND MONITORING					
Recommended for Immediate Implementation (< 3 months)					
4.1.1	Provide adequate detailed information relating to section 44-related procurement to the Procurement Strategy Steering Committee for its review and appropriate action.	HIGH	Agree. The Procurement Activities Summary Report to the RFS Procurement Strategy Steering Committee will be updated to include s44 related purchasing.	Director, Assets & Infrastructure	May 2015

ATTACHMENT C – CONTROL EFFECTIVENESS RATING SCALE

The following Control Effectiveness rating methodology, taken from NSW RFS Policy *P7.1.10 Organisational Risk Management*, was used to provide the overall rating of control effectiveness relating to this assignment.

Control Effectiveness Rating	Description / Guide
Fully Effective	Controls are well designed, largely preventive and address the root causes. Controls are effective and reliable at all times. Reactive controls only support the preventive controls. No more to be done except ongoing monitoring and periodic review of the existing controls.
Substantially Effective	Most controls are well designed, preventive and operating effectively. More can be done to improve control effectiveness, pro-activity and/or reliability.
Partially Effective	While the design of the controls may be good, they are not adhered to or effective in practice. Alternatively, controls are effective but not well designed or do not address root causes. There may be an over-reliance on reactive controls.
Largely Ineffective	There are significant gaps in the controls present. The controls may not address root causes, may not be preventive in nature, or may not be effective.
Totally Ineffective	The risk is not controlled. What control, if any, that does exist is ineffective in preventing risk events from occurring or mitigating their effects.

ATTACHMENT D – RISK RATING METHODOLOGY

The following rating methodology, taken from NSW RFS Policy *P7.1.10 Organisational Risk Management*, was used to rate the risks associated with audit findings from this assignment.

RISK RATING TABLE – NEGATIVE CONSEQUENCES					
	INSIGNIFICANT 1	MINOR 2	MODERATE 3	MAJOR 4	EXTREME 5
HIGHLY LIKELY 5	Low –L7	Medium –M4	High –H4	Critical –C4	Critical –C1
LIKELY 4	Low –L8	Medium –M5	High –H5	High –H2	Critical –C2
POSSIBLE 3	Low –L9	Low –L4	Medium –M3	High –H3	Critical –C3
UNLIKELY 2	Low –L10	Low –L5	Low –L2	Medium –M2	High –H1
HIGHLY UNLIKELY 1	Low –L11	Low –L6	Low –L4	Low –L1	Medium –M1

RISK RATING TABLE – POSITIVE CONSEQUENCES					
	INSIGNIFICANT 1	MINOR 2	MODERATE 3	MAJOR 4	EXTREME 5
HIGHLY LIKELY 5	Low +L7	Medium +M4	High +H4	Critical +C4	Critical +C1
LIKELY 4	Low +L8	Medium +M5	High +H5	High +H2	Critical +C2
POSSIBLE 3	Low +L9	Low +L4	Medium +M3	High +H3	Critical +C3
UNLIKELY 2	Low +L10	Low +L5	Low +L2	Medium +M2	High +H1
HIGHLY UNLIKELY 1	Low +L11	Low +L6	Low +L4	Low +L1	Medium +M1

The Likelihood and Consequence tables related to these risk rating tables are provided on the following pages.

Likelihood Table	
Likelihood	Detailed Description
5 Highly Likely	<ul style="list-style-type: none"> • Strong likelihood of re-occurring, with much opportunity and means to occur • The consequence is expected to occur in most circumstances (monthly) • High level of known incidents (records/experience).
4 Likely	<ul style="list-style-type: none"> • Considerable opportunity and means to occur • The event will probably occur in most circumstances (annually) • Regular incidents known (records/experience).
3 Possible	<ul style="list-style-type: none"> • Some opportunity and means to occur • The event should occur at some time over (2 to 5 years) • Few infrequent, random occurrences recorded/experienced.
2 Unlikely	<ul style="list-style-type: none"> • Little opportunity or means to occur • The event could occur at some time (5 to 15 years) • No known incidents recorded or experienced.
1 Highly Unlikely	<ul style="list-style-type: none"> • Almost no opportunity to occur • The event may occur only in exceptional circumstances (15+ years) • Not known to have ever occurred.

Negative Consequence Table							
Rating	Safety Impact*	Business Capability	Community Impact	Environmental Impact	Financial Impact	Reputational Impact	Legal/Regulatory/Compliance Impact
5 Extreme	Multiple fatalities and/or injuries with widespread medical attention required.	Loss of key service delivery requiring extended external assistance > 1 week.	Community impact severe and lasting > 1 week, not functioning without support.	Long term (> 5 yr) significant environmental damage or clean up costs > \$5 million.	Financial loss or unrecompensed expense of > \$30 million. Fraud > \$1m.	Damage to corporate reputation at national or international level. Major loss of community support.	Parliamentary scrutiny/ major government intervention. Significant prosecution, fines or class action. Imprisonment of responsible officers.
4 Major	Single fatality, serious injuries or occupational illnesses with potential acute or chronic disabilities.	Loss of key service delivery requiring external assistance between 1 day and 1 week.	General and widespread community impact on functioning up to one week.	Medium term (1-5 yr) significant environmental damage or clean up costs \$1 to \$5 million.	Financial loss or unrecompensed expense of \$10-\$30 million Fraud > \$250,000.	Damage to corporate reputation at state or national level. Significant decrease in community support.	Ministerial inquiry/government intervention. Requires external legal assistance Prosecution by regulator Litigation. Responsible officers charged with offence.
3 Moderate	Medical treatment required with potential for short term absence < 1 week with no fatalities or serious long-term disabilities.	Loss of service delivery causing disruption of up to 1 day.	Normal community functioning with some inconvenience for 24 or 48 hours.	Short term (< 1 yr) environmental damage or clean up costs up to \$1 million.	Financial loss or unrecompensed expense of \$1-\$10 million Fraud > \$50,000.	Damage to corporate reputation at state or regional level. Moderate decrease in community support.	Regulatory breaches with investigation or report to authority with prosecution powers. Requires intervention by senior management Fines possibly incurred.
2 Minor	Minor injuries only, medical treatment required. Sick leave not required.	Loss of service delivery causing disruption of less than half a day.	Some community disruption for less than 24 hours.	Small and short-term environmental damage requiring less than \$250,000 to clean up.	Financial loss or unrecompensed expense of \$100,000 to \$1 million Fraud > \$5,000.	Damage to corporate reputation at regional or local level. Minor decrease in community support.	Minor policy non-compliances or regulatory breaches, managed at local level.
1 Insignificant	On-site first aid may be required.	Inconsequential loss of service delivery. No impact on operations.	Inconsequential disruption to the community.	Small environmental impact, clean up on-site managed within normal operating budget.	Financial loss or unrecompensed expense of less than \$100,000 Fraud < \$5,000.	Local awareness of an issue exists but there is no public concern.	Minor compliance issues.

* Includes impacts on all Members, Contractors and the General Public.

Positive Consequence Table						
Consequence	Safety Impact*	Business Capability	Community Impact	Environmental Impact	Financial Impact	Reputational Impact
Extreme	See Reputational Impact	Major increase in ability to deliver key services or resilience.	1 week reduction in community impacts.	See Reputational Impact	Saving or benefit of > \$30 million.	National or international recognition leading to major improvement in community support.
Major	See Reputational Impact	Significant increase in ability to deliver key services or resilience.	3-7 day reduction in community impacts.	See Reputational Impact	Saving or benefit of 10-\$30 million.	National or State-wide recognition leading to significant improvement in community support.
Moderate	See Reputational Impact	Moderate increase in ability to deliver key services or resilience.	1-2 day reduction in community impacts.	See Reputational Impact	Saving or benefit of \$1 - \$10 million.	State-wide or regional level recognition leading to moderate improvement in community support.
Minor	See Reputational Impact	Minor increase in ability to deliver key services or resilience.	<1 day reduction in community impacts.	See Reputational Impact	Saving or benefit of \$100,000 - \$1 million.	Regional or local recognition leading to some improvement in community support.
Insignificant	See Reputational Impact	Some increase in ability to deliver key services or resilience.	Inconsequential reduction in community impacts.	See Reputational Impact	Saving or benefit of < \$100,000.	No shift in community support.

*Includes impacts on all Members, Contractors and the General Public.

ATTACHMENT E – ACCOUNTABILITY AND RESPONSIBILITY STATEMENT

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

It is important to note that there is an unavoidable risk in any assurance project that fraud or irregularity may not be detected. This is due to the sample basis upon which our testing is conducted and the inherent limitations of any system of internal control. This review therefore should not be relied upon to disclose fraudulent activities.

The matters raised in this report are only those that came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. NSW RFS should assess recommendations for improvements for their full commercial and operational impact before they are implemented.

This report is confidential, has been prepared solely for the use of NSW RFS and ownership of the report and any attachments lies with your organisation. It is the responsibility of your organisation to determine if you wish to release this report, in whole or in part. Costs of information requests under any Freedom of Information legislation such as the *NSW Government Information (Public access) Act 2009* or the *Commonwealth Freedom of Information Act 1982* or Subpoenas arising from actions taken by individuals or groups as a result of this report will be passed on to your organisation.

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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