

PAXON

TOWN OF VICTORIA PARK

Employment Practices Internal Audit Review

Final | June 2022

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1. INTRODUCTION

1.1 Background and Objectives

Paxon was engaged to perform an internal audit review of employment practices on behalf of the Town of Victoria Park (Town).

The objective of our review was to provide a report to management and the Audit and Risk Committee on the appropriateness and effectiveness of the Town's systems and procedures in relation to employment practices.

1.2 Scope

The scope of our internal audit included:

- Review of policy and other internal guidance related to the following processes for regular review and update, and where relevant its alignment with legislation and regulation;
- Review and follow up of the management letter arising from the Office of the Auditor General's ('OAG') report on Verifying Employee Identity and Credentials;
- Review and testing of processes for pre-employment checks;
- Review and testing of selection processes, including documented assessment;
- Review and testing of processes for identifying, documenting, and dealing with conflicts;
- Comparison of employee bank details to the accounts payable ledger for potential employment conflicts; and
- Review and testing of processes related to secondary employment, such as awareness of employees and pro-active identification by the Town.

Record management processes were also considered during the performance of the above.

The recruitment processes tested in detail were commenced between February and October 2021.

2. EXECUTIVE SUMMARY

Based on the work performed by Paxon a number of areas for improvement have been identified which should be addressed in the short term.

The improvements noted are similar in nature to those raised by the Office of the Auditor General within their report of June 2019 entitled Verifying Employee Identity & Credentials which included review of processes and testing at the Town. Although work to remediate processes to address the findings of that report, such as the implementation of the Big Red Sky system for recruitment (July 2021) and onboarding (September 2021) these processes are not operationally effective based upon our testing both pre and post implementation of the system.

This is noted particularly in relation to recruitment processes and verifying applicant information and eligibility for roles. We also noted that monitoring processes for their operation were deficient. Although processes may not be fully operational we have not identified that appointments were made inappropriately.

Given this we believe that all of the findings noted within the OAG’s report should be considered open until they can be independently evidenced as operationally effective, alongside new findings raised within this report. Overall these findings rate as a high risk to the Town, though below and within section 5 we have provided ratings for individual findings.

Paxon also performed an exercise to compare the banking details held within the payroll database to the same information included within the suppliers database to identify any duplicates. The purpose of this was to identify potential instances of fraud/misconduct and/or secondary employment. As is usually the case with exercises of this nature a large number of false positives were identified. These arise as expenses are paid to staff through accounts payable and so their details appear in both databases. These were ruled out and 9 duplicates remained.

Of these 9:

- Four were old or related to refunds for fees and so not investigated further;
- Four related to community funding schemes that have been taken up by employees who are residents of the Town, such as security incentive schemes and adopt a verge. Policy 114 Community Funding was reviewed and it is unclear if employees that reside within the Town are eligible. This will be looked at in more detail within the forthcoming internal audit review of Grants & Funding.
- The final duplicate related to a member of staff providing leisure classes at the weekend. This was not related to their primary role with the Town and a secondary employment form has been completed.

Paxon’s key Audit Findings are summarised within the table below and are documented in more detail within section 5 of this report.

Process	Finding	Risk Rating
Recruitment & Appointment Processes	Completed recruitment checklists do not evidence performance and review	High risk
	“Interview Assessment” forms are not completed or lacking	High risk
	“Declaration of Confidentiality & Interest” forms are not completed or lacking	High risk
	Criminal records screening was not performed timely	High risk
	Incomplete records are kept for reference checks	Medium risk
	Autonomous qualification checks are not performed by the Town	Medium risk
Guidance Documents	Internal guidance documents require review and evidencing the process	Low risk

2.1 Good Practice by the Town

Paxon identified several good practices in the following areas:

- The Town maintains a comprehensive set of process documents which covers selection processes, pre-employment checks and monitoring of existing employees for changes in their circumstances. These process documents acknowledge relevant legislation and regulations and is aligned with the better practice principles within the OAG report entitled: “*Verifying Employee Identity and Credentials*”, dated June 2019;
- A selection process methodology exists and the Big Red Sky system has been implemented for recruiting and onboarding;
- Position descriptions provide for the checking of essential position criteria;
- Employees are monitored to confirm their continuing employment eligibility; and
- Controls exist to manage secondary employment instances.

3. METHODOLOGY

Our methodology for this review comprised of the following steps:

- Conducted an initial meeting with management to obtain an understanding of processes and potential issues;
- Developed overview documentation of the processes including key controls by discussion with staff and review of the processes;
- Evaluated the effectiveness of the design of controls to cover the identified risk and tested the operation of the key controls;
- Followed up and confirmed action taken on any previous business issues identified and recommendations made;
- Researched the issues, weaknesses and potential improvements noted from our discussions and review of the existing processes and identified key controls;
- Developed appropriate recommendations for improvement for discussion with management;
- Drafted a report of findings and recommendations and obtained formal responses from management; and
- Finalised the report and issued it to the Manager Governance and Strategy for distribution to the Audit Committee and relevant management.

Each finding detailed in section 5 is rated based on the following scale:

Rating	Definition
High	Major contravention of policies, procedures or laws, unacceptable internal controls, high risk for fraud, waste or abuse, major opportunity to improve effectiveness and efficiency, major risk identified. Immediate corrective action is required. A short-term fix may be needed prior to it being resolved properly.
Medium	Moderate contravention of policies, procedures or laws, poor internal controls, significant opportunity to improve effectiveness and efficiency, significant risk identified. Corrective action is required. Need to be resolved as soon as resources can be made available, but within six months.
Low	Minor contravention of policies and procedures, weak internal controls, opportunity to improve effectiveness and efficiency, moderate risk identified. Corrective action is required. Need to be resolved within twelve months.

4. INHERENT LIMITATIONS

Due to the inherent limitations in any internal control structure, it is possible errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted our review was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The review conclusion and any opinion expressed in this report have been formed on the above basis.

5. DETAILED AUDIT FINDINGS

5.1 Recruitment Checklists

The Town's "*Recruitment and Selection – Procedures*" document identifies several "*Pre-employment Checks*" including:

- Verifying the candidate's identity;
- Confirming the candidate's eligibility to work in Australia;
- Verifying the candidate's qualifications; and
- Confirming the candidate has an appropriate driver's licence, professional memberships and any other relevant cards or licences as required.

The Town uses a "*Recruitment Checklist*" (Checklist) to oversee the process for the appointment of new employees. This Checklist states:

"To be completed prior to all offers of employment";

Paxon examined a sample of "*Recruitment Checklists*" (Checklists) to determine whether due process was followed in performing pre-employment assessments. The sampled Checklists record (by means of marking off) whether checks were performed including:

- 100 Point identification check;
- Right to work in Australia check;
- Qualification check;
- Police clearance check; and
- Reference checks.

The sampled Checklists also record (by means of marking off) whether supporting documents were attached. However, the sampled Checklists do not record which Town employee:

- Performed the pre-employment assessment; and
- Reviewed the assessment process.

The sampled Checklists as presented for internal audit were also found to be editable which makes it susceptible to inappropriate changes.

Consequently, the completed Checklists do not provide satisfactory proof due process was followed in performing pre-employment assessments.

This is an important control in monitoring the effective and timely operation of the underlying processes and controls.

Risk Rating

Paxon has determined this finding to be of **High Risk**.

Implication

Due process may not be followed in the appointment of Town employees.

Recommendation

- Checklists should provide for recording the identity of Town employees who:
 - Performed the pre-employment assessment; and
 - Reviewed the assessment process.
- All checks should be completed in advance of making an offer to an applicant.
- Checklist should be signed and dated by preparer and reviewer and saved in an unalterable form.

Management Comment

Agree that the checklists are incomplete and require more detail on the form. We will ensure checklists are completed for every recruitment process and will add a sign off section for interviewer and Senior P&C Officer to approve to ensure all stages of the recruitment process have been completed.

Action Owner

Manager People & Culture

Target Completion Date

31 August 2022

5.2 Interview Assessments & Outcomes

Paxon examined appointment practices for a sample of employees appointed between November 2020 and October 2021.

We tested six recruitment processes for compliance with the required processes as set out within Policy and Operational Policy. The results are summarized below:

- Four assessment forms were not fully completed, including the interview summary and overall suitability for the role sections;
- Identity of interviewer was not recorded on one form;
- Not all assessment forms for the interview panel were provided for two applicant interviews; and
- Only 4 of the 6 process summary and recommended appointment selection reports could be provided.

Risk Rating

Paxon has determined this finding to be of **High Risk**.

Implication

Non-completion of Assessment forms and incomplete Assessment Forms provide limited proof that due process was followed in making appointments.

Recommendation

Assessment Forms should be comprehensively completed by all members of the interview panel. Specifically, the "*Interview summary*" section of the Assessment Form must be completed as in this section an assessment is made of the information recorded during the interview and the candidate's overall suitability for the vacant position.

Management Comment

Agree interview notes are not completed with the detail that is required. We will work on educating relevant staff who sit on interview panels and all People and Culture team members to ensure interview documents are completed in entirety and will request additional information where required.

Action Owner

Manager People & Culture

Target Completion Date

31 July 2022

5.3 Declaration of Confidentiality & Interest Forms

Paxon tested six recruitment processes to determine if the Declaration of Confidentiality & Interest Form had been completed by all interviewers and the results are summarized below:

- Out of 19 interviewers on 6 interview and selection panels, only 9 forms were provided to Paxon.
- Of these 9 only 1 contained the name of the applicant and 6 the applicant's position.

The Declaration Forms only provide for recording a position title for the candidates being interviewed. The form does not provide for recording the identity of the candidates which is important to ensure clarity over the declaration.

Paxon understands this process was introduced in January 2021 and all the processes tested were after this date.

Risk Rating

Paxon has determined this finding to be of **High Risk**.

Implication

In the event of potential future allegations of corruption or misconduct non-performance could make the audit trail difficult to establish that due process was followed.

Recommendation

Declaration forms should be comprehensively completed by all members of the selection panel prior to the interview of shortlisted candidates and formally recorded.

The form should be amended to include the applicants name to avoid ambiguity.

Management Comment

People and Culture will ensure declaration forms are completed by all panel members of the selection panel prior to short-listing candidates and interviews being conducted.

The declaration form will be amended to include the applicant's name.

Action Owner

Manager People & Culture

Target Completion Date

31 July 2022

5.4 Criminal Record Screening

Criminal record screening is performed by the Town, but for 4 of the 6 appointment processes tested these appear to have been performed after the offer or signing of a contract. The following delays were noted:

- 1 day after acceptance of position;
- 2 were after 2 weeks after acceptance; and
- the fourth was approximately 8 months after acceptance.

Although contracts include clauses with regards to the accuracy of applicant declarations and probation periods, the performance of checks prior to appointment would be preferable and was part of the amended process documented in response to the OAG Management Letter of 2019.

Risk Rating

Paxon has determined this finding to be of **High Risk**.

Implication

Appointments could be made to inappropriate applicants.

Recommendation

Criminal record screening should be completed and reviewed prior to making an offer to a selected candidate for a position.

Management Comment

Collection of police clearance is now automated through Big Red Sky and applicants have to upload copy of national police clearance prior to commencing at the Town. New employees are also required to complete an annual declaration form prior to commencing and have to declare if they have had any criminal convictions.

People and Culture will ensure police clearances have been uploaded to Big Red Sky and that new employees don't have any convictions prior to commencement.

Action Owner

Manager People & Culture

Target Completion Date

31 July 2022

5.5 Reference Checks

Reference checks are performed by the Town and for the sample of 6 recruitment selection processes tested we noted the following:

- 3 of the Reference Forms did not record which Town employee performed the referee interview; and
- 3 Reference Form records did not confirm whether the interview panel was advised of the comments received (as required on the form).

Risk Rating

Paxon has determined this finding to be of **Medium Risk**.

Implication

There is an incomplete audit trail related to the performance of reference checks and the outcome may not be considered within appointment decisions.

Recommendation

Reference Forms should identify the employee who conducted the interview and record whether the interview panel members were informed of the reference check results.

Management Comment

Agree that some forms may be incomplete of all the information due to a lack of attention to detail and will discuss with People and Culture to ensure the name of the interviewer is on the form and that the panel members were informed of the outcome of the reference check.

In saying this, as per the procedural requirements, two professional reference checks are completed for all potential employees.

Action Owner

Manager People & Culture

Target Completion Date

Effective immediately

5.6 Qualification Checks

The Town's "Recruitment and Selection – Procedures" document, dated 22/07/2020 states in section 9.4 entitled: "Verification of Qualifications":

"Where necessary to the role, the preferred candidate must provide an original or certified copy of their certificate of qualification such as a degree, diploma or certificate. Further the qualification must be verified by the Town:

- seeking confirmation from the institute that issued the qualification, or
- engaging an external provider to verify the qualification."

In other words, the Town's qualification check goes beyond a mere examination of original or certified records provided by the candidate. The Town's qualification check demands an autonomous qualifications check by the Town or a third party.

No records were provided for examination purposes regarding the Town or a third party performing an autonomous qualifications check.

We also noted for 5 of the 6 recruitment processes that:

1. A copy of a degree certificate was examined, but no proof was provided for examination purposes as to the two professional memberships;
2. A copy of a degree certificate was examined, but no proof was provided for examination purposes as to the diploma, certificates and training completed;
3. A "Statement of Academic Record" was examined regarding an MBA, but no proof was provided for examination purposes as to the certification and professional membership;
4. A copy of a degree certificate was examined, but no proof was provided for examination purposes as to the certification; and
5. A copy of a degree certificate was examined, but no proof was provided for examination purposes as to the MBA, construction white card and professional affiliations and memberships.

Risk Rating

Paxon has determined this finding to be of **Medium Risk**.

Implication

The Town does not comply with the controls stipulated in section 9.4 entitled: "Verification of Qualifications" as included in its "Recruitment and Selection – Procedures" document which could result in qualifications not being accurately identified if false.

Recommendation

All key qualifications should be identified and verified.

An autonomous qualification check should be performed by the Town or a third party regarding all job relevant qualifications.

Management Comment

Agree with the recommendation. Currently People and Culture ensure that a copy of the relevant qualifications are collected from the new employee but have not taken the next step to verify the qualification.

People and Culture understand this was a recommendation from the auditor general report but have not had the resources and time to implement this step. It will be a focus going forward.

Action Owner

Manager People & Culture

Target Completion Date

31 July 2022

5.7 Update of Guidance Documentation

Internal guidance documents have not been reviewed and updated on a timely basis:

- Gratuity Payments to Employees Policy – updated 8/19
- Recruitment & Selection Operational Policy – updated 9/19
- Grievance Handling – updated 11/14
- Unhealthy & Hazardous Workplace Behaviour Prevention – updated 12/16

Paxon also noted that other documents do not include the date of review:

- We understand that the Standards for CEO Recruitment was updated in May 2021 but it is not indicated on the document and so it is not clear if it was updated since 3/2/21 when the regulations for this area changed; and
- Induction Manual and Checklist recruitment checklist.

Risk Rating

Paxon has determined this finding to be of **Low Risk**.

Implication

Guidance may be outdated or inconsistent leading to it being harder to enforce.

Recommendation

- The Town should develop a process for monitoring the review of internal guidance documents.
- Review and the required frequency of review should be evidenced within documents.

Management Comment

The Standards for Chief Executive Officer Recruitment, Performance and Termination were adopted by Council at the Ordinary Council Meeting held 18 May 2021 (council resolution number 98/2021). A revision history section has been added to the document to indicate when it was last reviewed by Council.

Agree many People and Culture procedures need to be reviewed. This will be a priority in next six months. In saying that, the recruitment and selection procedure was recently updated.

The induction manual was reviewed in 2021 when uploaded to Big Red Sky.

Recruitment checklist does require updating but as previously stated, most actions are now automated in Big Red Sky.

Action Owner

Manager People & Culture

Target Completion Date

December 2022

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